ALAGAPPA UNIVERSITY

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Karaikudi 630 003

DIRECTORATE OF DISTANCE EDUCATION

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M.B.A (International Business)

Paper -~~3.5~~ 4.3

MANAGEMENT STRATEGIES OF MNCs

ALAGAPPA UNIVERSITY

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Paper 3.5: MANAGEMENT STRATEGIES OF MNCs

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UNIT 5

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UNIT – I

EMERGENCE AND GROWTH OF MNCs

Objective of this lesson is to help learners to understand and comprehend.

i) Growth of Multinational Corporations

ii) Types of MNCs

iii) Problems of and from MNCs

iv) Benefits from MNCs and

v) Process of Internationalisation

Multinational Corporations (MNCs) are companies which have direct operations through own plants or service units in a plural number of countries. MNCs are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is deemed as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital state. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets in some countries such as Germany and United Kingdom, the threshold is a stake of 20 per cent or more. MNCs abound in number and they have enormous clout on the global geo-economics as well as geo-politics.

GROWTH OF MULTINATIONAL CORPORATIONS

Multinational Corporations have been growing in number, volume, geographical spread and so on. Though, generally an MNC consists of a parent company located in the home country and at least five or six foreign subsidiaries with a high degree of strategic alliance among the units, there are MNCs who have over 100 foreign subsidiaries each as well. The MNCs had global sales in excess of$ 4.8 trillion which is larger than the value of global trade in 1992. In 1998, the sales of top 100 MNCs were $ 2 trillion. About of third of world output is contributed by the MNCs. About 73 mn people cue in direct employment with the MNCs, representing 10%nof world employment in non-agriculture employment in 1992. In 1998 MNCs employed about 350 million

people. The number of MNCs was at around 37000 in 1992 with over 2 lakh foreign subsidiaries. The top most 100 MNCs, excluding those in banking and finance, held $ 3.4 trillion in global assets in 1992, of which 40% were located outside their home country. With liberalization of economic policy being earnestly followed by most countries of the world, there has been enormous increase in the geographical spread of MNCs. The popularity of MNCs can be known from the fact that most of them receive 50% or more of their revenues in profits. Some of them read like who's who: IBM, Gillette, 3M, Colgate-Palmolive, Philips, Xerox, Pepsi, Hero Honda, Suzuki, Ford, General Motors, Sony, Unilever, Hewlett-Packard, Coca-Cola and so on. It is said that. Coca-Cola earns more money by selling Soda in Japan than it does in the USA. Exxon, an American base MNC, had about 56% of its assets, 73% of its sales and 97% of its profits abroad. According to World Investment Report 1997, there were 45000 MNCs with 2,80,000 affiliates. According to World Investment Report 2001, there were 63000 MNCs with 8,22,000 affiliates, 12% of these affiliates were in the developed countries. China hosts about 44% affiliates, compared to India's pittance of 0.16%. In India of the 10 top 500 companies by market value, about 75 were MNCs present in India include the Lever, the ITC, the Castro, the Colgate-Palmolive, the Nestle, the Siemens, the Ponds, the ABB, the Ingersoll Rand, the Philips, the MICO, the Glaxo, the Reckitt and Colman, the Procter & Gamble, the Smithkline-Beecham, etc. Thus MNCs have been growing in stature and spread all over.

Reasons for Growth of MNCs

There are several factors that underlie the growth of MNCs. These include, increasing factor mobility, opening up of command economics, growth urge and opportunities for growth, the Brettonwoods system, market capturing, raw material availability, low-cost production possibilities, profit orientation, etc.

First factor mobility is the most important of all factors that has contributed to growth of MNCs. During the time of the great economists likeAdam Smith, David Ricardo and their great folk, cross-border movement of. goods only on the basis of comparative cost principle was envisaged. Cross-border movement of factors of production was not envisaged. Now capital, technology, labour and even management 'just move from anywhere to anywhere. Perhaps international understanding and economic corporation have

paved the way for world-wide flow of factors of production. Technical collaborations, overseas job market expansion and overseas management consultancy are all on the increase. MNCs play a vital role in this factor mobility contributing to the growth. As a result of factor mobility, instead of goods being traded across national borders, production plants are set up in the identified market themselves by the MNCs countries to open their economies and going for competitive bidding. This paves the way for growth of MNCs.

Sixth, there are MNCs who always have a constant eye on foreign markets. IBM, Volkswagen, Unilever, Coco-Cola, N.V.Philips, Singer, etc come m this category. Originally American firms bought plant and equipment in the Western Europe. This happened till 1960s. Later' Western Europe firms opened shops in the USA. By 1980s, Japanese acquired firms in the Europe and America. Now there is camping of MNCs in the Emerging World Markets like India, China, Mexico, Thailand, etc. Perceived/actual restrictions on imports led to MNCs opening up factories in the foreign lands. India and China are a great attraction as market for most MNCs at present. There is a classic difference between US and Japanese MNCs in market capturing. US MNCs look at the up-end of the market, while Japanese MNCs look at the unattended low-end. Low-end market has lot of growth potential and this gives scale economies. With accumulated resource;- wide market and proven process technology, Japanese MNCs are a threat to the US MNCs.

Seventh, initially most MNCs were spreading their wings globally just to tap raw materials available elsewhere for supporting production at the patent plant. British, Dutch and French East India companies are classic examples of MNCs of the raw-material seeking type. Now instead of tapping raw materials, the MNCs set up plants where factor markets are favourable. Because their search for growth never is inward but always outward. That is their culture.

Eighth, MNCs are now driven by cost-minimization drives. They set up plants at places where low-cost production possibilities are great. Hong Kong, Taiwan and Ireland, are preferred by MNCs for setting up electronic industrial units for there is cost efficiency. India, being a cheap-labour country, MNCs have started flooding into India. IBM and Ford, outsource production of parts to low-wage countries such as Mexico and by establishing assembly plants and R&D centres in Europe and Japan.

Ninth, MNCs have long back realized the need for risk-minimizing. Threats from their oligopolistic competitors are always there. Further country-risk is always there. Meeting both the risks is facilitated by geographical spread. By being close to market, better orientation is easily facilitated. Geographical spread is risk-minimizing strategy. And there is growth. Japanese competition affects the American Auto Industry., So, American Auto firms go out to the third world in search of strategic alliance partnership.

Tenth, MNCs are interested in profits definitely in the long-run , if not in the short-run. And MNCs are generally highly profitable. Profit booking facilitates growth diversification, modernization and R&D competitiveness Actually MNCs book profits by being flexible, adaptable and quick. In today's head-on competition, the most important factor for growth-is speed. Ability to design, develop and distribute products/services m short-span of time holds the key to success. The managerial culture of MNCs facilitates quick action and growth flows thereby.

Eleventh, growth of MNCs is very much influenced by their management culture. MNCs generally adapt to local conditions and the relationship between parent and subsidiaries is that of "coordinated federation". Decisions on investment financing and market are localized. But Japanese MNCs do centralize decisions. The East-West difference is thus found. But the underlying similarity is the bias for action. Corporate strategic planning is an essential package of MNCs management practice whereby the MNCs scan and plan for enhanced integration and coordination of their global-activities. And subsidiary level strategic plan is directed at localizing the global strategy according to the peculiarities of the local conditions. Microsoft Corporation allows its European subsidiaries to develop local strategies to meet local market needs. This type of autonomous adoption to fast changing local business environment has been the main reason for the spatial spread of MNCs. The autonomy enjoyed by subsidiaries is not to turn into dysfunctional anarchy, for the behaviour of individual managers is well shaped through shared vision of, identification with and binding commitment to the global strategy of the MNCs. Hence the growth of MNCs.

Twelfth, and finally the growth', of MNCs is partially attributed to development in communication and transportation technology.

TYPES OF MNCs

MNCs are of different types. These are classified differently by different authors. Some of the types, of MNCs are dealt here.

According to strategies adopted, MNC are of three types according to Alan C. Shapiro. Innovation based MNC.s, Mature MNCs and Senescent MNCs are the three types. The innovation based MNCs are having "-trong R&D. the examples are IBM, Sony, Philips, Sp.nsung, etc. Their technological lead is their asset. The Mature MNCs are in the field of automobile, petroleum, food, and other mature industries. Economics of scale and economics of scope are their main stay. They take advantage of the learning curve. The senescent MNCs are those that operate in post-mature markets with high degree of product standardization. It is at this stage they really think of further geo-spread in search of market. Crown Cork & Seal of USA , Textile majors, etc come in the category.

According to the type of interest in the subsidiaries, MNCs are classified. A Foreign Affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise) In the World Investment Report, subsidiary enterprise, a subsidiary enterprise, associate enterprise and branches are all referred to as foreign affiliates.

A Subsidiary is an incorporated enterprise on the host country in which another entity directly owns more than a half of the shareholders voting power and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body.

An Associate is an incorporated enterprise in the host country in which an investor owns a total of at least 10 per cent, but not more than a half, of the shareholders' voting power.

A Branch is a wholly or jointly owned unincorporated enterprise in the host country which is one of the following: (i) a permanent establishment or office of the foreign investor; (ii) an unincorporated partnership or joint venture between the foreign direct investor and one or more third parties; (iii) land, structures (except structures owned by government entities), and/or immovable equipment and objects directly owned by a foreign resident; (iv) mobile

equipment such as ships, aircraft, gas or oil-drilling rigs operating within a country other than that of the foreign investor for at least one year.

According to management model adopted MNCs are classified as well as below. Multinational Coiruoration or the European Model: This is the type of the corporation popular when many European companies internationalized during the pre-war (1920s and 1930s) when the trade barriers were very high. According to Bartlett and Ghushal, the multinational organization is defined by the following characteristics: a decentralized federation of assets and responsibilities, a- management process defined by simple financial control systems overlaid on informal personal coordination, and a dominant strategic mentality that viewed the company's worldwide operations as a portfolio of national businesses. In a multinational organization, the decisions, obviously, are decentralized.

International Organization Model or the US Model: This organization structure, was predominant in the case of the American companies which internationalized in the early postwar years. In the international organization, the structural configuration of which is described as coordinated federation, many assets, resources, responsibilities and decisions are decentralized but controlled from the headquarters. The overseas operations are regarded essentially as appendages to a central domestic corporation. In this model, the headquarters transfers knowledge and expertise to overseas environments that were less advanced in technology or market development. While local subsidiaries are often free to adapt the new products or strategies, their dependence on the parent company for new products, processes, or ideas dictated a great deal more coordination and control by the headquarters than in the classical multinational organization.

Global Organization Model or the Japanese Model: The Japanese companies which internationalized since the mid 1960s through the 1970s and 1980s adopted global organization model. The global configuration is based on centralization of assets, resources and responsibilities; overseas operations are used to reach foreign markets in order to build global scale. The role/of local subsidiaries is to assemble and sell products and to implement plans and policies developed at headquarters. Compared with, subsidiaries in multinational or international organizations, they have much less freedom to create new products or strategies or even to modify existing ones. In the global model, management

treats overseas operations as delivery pipe lines to a unified global market, is described as a centralized hub. The global organization model, where authority and decision making are centralized and subsidiaries used basically as implementing agencies, is described as a centralized hub.

Transnational or the Eclectic Model: The transnational organization and model seeks to eliminate some of the drawbacks of the other models. It endeavours to achieve global competitiveness through, inter alia, multinational flexibility and worldwide learning. In a transnational, the specialized resources and capabilities art; dispersed among the various operating units globally. These units are interdependent and integrated and have large,flows of components, products, resources, people and information among tHem. An important feature of the transnational, therefore, is the complex process of coordination and cooperation in an environment of decision making.

PROBLEMS OF AND FROM MNCS

MNCs cause and are caused problems. The problems caused by MNCs make them unpopular with certain sections of the society, especially, the opposition politicians, the domestic industry and trade, the labour and the like. To ward off problems for themselves, the MNCs are increasingly relying on multilateral interventions and unified global economic laws. In this section we shall give a look into these problems.

Problems of MNCs : There are scores of problems for MNCs in the third-world countries, though these are dying down of late. The different problems are listed below.

- Discriminatory legislation by host countries against transnationals;
- Expropriation of their properties without compensation;
- The reluctance of developing countries to submit to international arbitration for .settlement of disputes;
- The absence of a stable investment climate to enable transnationals to contribute to development;
- Non-observance of contracts by developing countries;

- Social policies that hindered progressive industrial relations and frustrated the effects of the activities-of the transnationals to create employment;
- Lack of dialogue between host countries 'and transnational corporations;
- Problems of cooperation between transnationals anc" developing countries;
- No appreciation of the constructive role played by the multinationals in fostering growth and devei6pment, in promoting organization, improved working conditions and
- Finally .issues like restrictive business practices, regarding repatriation of capital and remittance of profits, etc.

In India, FERA earlier imposed several restrictions on MNCs with more than 40% equity stake held by parent concern. Now things have changed. Investment climate was earlier hostile. Since 1991 things improved and that foreign direct investment rose. But election-eve tension is a reality. The cancellation of Enron-Dabhol Project, blockade of the Rs. 1600 crs Sinar Mas Pulp & Paper India Ltd at Pune, the drag on Tata-Singapore Airlines proposal, campaign against Pepsico India (Holdings), the attack on Kentucky Fried Chicken outlet in Bangalore, blanket no to Thapar-Dupont's nylon 6.6 project in Goa, etc sent earlier different notes to MNCs who have very positively responded to Indian reforms process. Now in the early 2010s, the reception to MNCs is very encouraging. The lid on FDI is either removed or upscaled for most sectors, besides many sectors including the print media are opened to foreign direct investment. Indian Labour laws are over-protective of labour which irritate corporate houses, including MNCs. There are both advantages, and disadvantages of MNCs. But, opposition political parties tend to look at the demerits more than the merits/The reverse is the case. with ruling political parties who , have invited MNCs to shoulder the. country's development responsibility. *In* sum, for MNCs politics is the problem. Balance of interest is crucial to be achieved.

Problems from MNCs. The problems from MNCs to host countries may be highlighted. There are equally long list of problems to suggest that MNCs are more sinning than sinned against.

Non-transparency: Attempts made by the-developing countries to make MNCs at least declare their incomes have been systematically countered by accounting

jugglery. Other problems with MNCs include: purchase of parts and materials from affiliated companies at grossly exaggerated prices; payment of high level of wages to the employees, with no reference to the wage policies of host countries and undermining the political base of a government through corrupt practices.

Evil Designs: Experts say that the developing countries must be wary of the designs of the MNCs. This is because the MNCs want to see that the world depends on them and their products. They do not mind if their activities enfeeble the environment in the host countries. It has been observed. "Keeping the land and people in a state of disease and sickness is a very lucrative business for them. It is the sale and use of their poisons which cause the diseases for which we then return to them to purchase their cures".

Profiteering: Profit maximization appears to be the major goal of MNCs. About 80 per cent of all chemicals and drugs sold in India and other third world countries are banned in their own countries. Of the 145 banned pesticides, the production of 103 or 71 per cent has gone up!

Dumping: India has become a major dumping ground for rich countries' wastes. In 1993, we imported 74,000 kgs of plastic waste, the US exported another 7.8 million kgs of plastic waste, 26.8 million kgs of tin, 9,17,000 kgs of lead ash and 14,500 kgs of lead acid batteries. The UK shipped 2.5 million kgs of lead waste, Canada sent 9,60,000 kgs of copper waste, 1.2 million kgs of a&A, one million kgs of lead waste and 106 million kgs of ferrous waste and Germany exported 2 million kgs of metal waste to India.

Inappropriate Technology: The operations of MNCs may result in untimely transfer of inappropriate technologies which may even lead to regional economic imbalances. Other harmful effects include over-expatriation of scarce hard currencies in the form of dividends, royalties, patent fee and profits, excessive local borrowing, long-run technological dependency on the parent countries and exorbitant transfer of prices for exports or imports and for technological packages.

Strings: In some cases, the transfer of technology has strings attached. The country is required to buy intermediate and capital goods from the same country from which it purchased the know-how. By charging slightly higher prices, the parent corporation takes fuller-advantages of. an already exploitative situation. Often the subsidiary in the host country is required to pay exorbitant royalties

and fees for the use of specific manufacturing processes. Also because of the - complex nature of the technology, the country is made to depend on the parent country for details &f its further implementation and future adaptation and development. The R&D is carried out in the developed country. As such. Iocs'. scientists and technicians will go to the developed country, leading to "brain drain" for the developing country.

Economic Disequilibrium: The MNCs are held responsible for the perpetuation of economic disequilibrium in the world and growing income divergence between the rich and poor nations. The MNCs have no obligation to any nation state. They seek to escape any form of democratic control or social responsibility. Their sole interest is in expansionist policies. The enormous resources at their disposal are even used for political corruption and overthrowing, governments democratically elected. They prefer to operate under dictatorial regimes or where human and trade union rights are suppressed.

Manipulation: The various affiliates of the MNCs are closely integrated. As such, they can easily manipulate trade for maximization of the global profit. They do it by means of under-invoicing and over-invoicing which are called 'transfer pricing'. .For instance, if the affiliate has to transfer funds to the parent. organization through the price channel, the goods coming from the parent company are over-priced or the goods going from the affiliate are under-priced.

Ills of Transfer Pricing: The loss caused by transfer pricing may be borne by various groups in the host country: the government (loss of tax revenue), local shareholders (loss of legitimate share profit), trade unions (reduced wages), consumers (higher prices)'and even other producers through worsening foreign exchange situation.

BOP Problem: Transfer pricing is bound to cause balance of payment problem. The exports do not add to the foreign exchange reserves to the extent they are under-priced. On the other hand, imports made artificially costlier drain out large reserves. Also, through the book keeping -procedures, the MNC inflates the profits of the subsidiary in countries where the *tax* burden is lowest and limits profits where the tax rate is high.' However, different host countries are differently affected by transfer pricing, depending on their tax and tariff rates, their, socio-political situation, pressures on prices and wages, local shareholding - and the like. The MNCs do have a highly wee-developed information system to get the correct picture of the economic conditions worldwide. They are prone to

-indulge in transfer pricing abuses, particularly for raw materials, not only through the manipulation of prices as such but also through variations in quality and quantity. There must therefore, be adequate government monitoring mechanisms.

Conspicuous Spending: The developing countries have to curb the tendency for conspicuous consumption. But, most MNCs through their aggressive advertising, encourage conspicuous consumption and wasteful expenditure. The production patterns of poor countries become, preposterous much to the disadvantage of the poorer sections.

Political Activities: In some countries, the MNCs participated even in political activities, covertly of course. Some US companies did finance the election campaigns in the host countries. To put an end to such an obnoxious practice, the US law against pay off came into the statute book. Most developing countries view with skepticism the strategies of the MNCs considering the colonial past and also politically destabilizing activities in countries of Latin America. Narrow-balance Sheet Efficiency: The MNCs produce an adverse impact on at least 60 per cent of the world's population in three crucial aspects.

The MNCs are undermining the ability of governments to maintain employment, to regulate the money supply, to prevent the erosion of the tax base and thus to meet essential social needs for the majority of their citizens.

The MNCs' are promoting a model of development and a world distribution system that increases the inequalities across the planet-widening gap between rich and poor.

Following a narrow balance-sheet definition of efficiency and grow or die philosophy, the MNCs are misusing and misallocating resources.

Reluctant to Invest in R&D: The MNCs tend to locate their production .and other, operations in the least' cost centres. They have a proclivity to locate the headquarters of their subsidiaries in tax-free havens. True, professionals are available at a cheaper rate in the host countries. Yet, MNCs are reluctant *to* invest in R&D facilities there. Most MNCs are reluctant to bring in the latest-technology unless it senses a potential threat otherwise.

BENEFITS FROM MNCS

The host country benefits in a number of ways through MNCs- These are presented below:

Globalization: The MNCs contribute to internationalization of production by transforming the raw materials produced in one .group of countries, with, the labour and plant facilities in others to manufacture of goods and sell these goods in global markets. The fruits of science in the form of instant communication, quick transport, computers, modem managerial techniques, etc., have been helping the MNCs in reshuffling resources.

Innovation: MNCs have played an innovating and catalytic role in funding new industries, transmitting technological and managerial skills as well as capital and in many cases, creating entire social infrastructures, including transportation, in order to conduct their business. Moreover, MNCs have world-wide marketing organizations that facilitate exports from developing countries and thus help the process of transformation of a tradition less productive sector into high productive export sector.

BOP Impact: MNCs help in improving Balance of payments of host countries through exports and inflow of capital.

LDCs benefit much: Some believe that the MNCs are to play a positive role in the economics of less developed countries. The positive contribution may lake the forms of international transfers of appropriate technology, improved production, economies of scale, and ensuring forward and backward linkage effects.

Capital Market: Foreign direct investment (FDI) brings in skills relating to marketing, financial and technical services. Through joint ventures, FDI helps to train local managers and increases employment opportunities via spin-off effect. It also encourages exports by increasing access of local firms to the global markets.

Technology Transfer: Most modem commercial technologies have emanated from the MNCs. They play an important role in the sphere of technology transfer, either as investors, suppliers of capital goods or providers of unpackaged technology through licensing. Of course, the developing countries must be in a position to absorb the technologies they import.

Indigenization: The MNCs are showing greater interest now ;n corporate responsibilities relating to .terms of import substitution, indigenization of professional management and increasing stress on applied R&D, export promotion, indirect employment through forward and backward linkages through ancillarisation, sub-contracting, distribution and nursing of sick units.

Employment: A study in India has shown that the MNCs have succeeded in generating 'employment opportunities. Employment growth in MNCs during the period 1990 to 1995 has been to the tune of 3.84 per cent with indirect employment growing at. the rate of nearly 9 per cent per annum, as against, according to the CII survey, basic goods industry (4.06 per cent), intermediate goods industry (3.01 per cent), consumer non-durable industry (8.20 per cent and the services industry (3.21 per cent). MNCs have exhibited high growth rates in total employment.

Not at receiving end: At present, the developing countries are not at the receiving end. Over a period, these countries have gained substantial expertise in negotiating with MNCs. In fact, the misunderstandings and differences which existed between the MNCs and host countries are slowly giving place to initial co-operation. A series of innovative contractual forms have led to a more equitable distribution of costs and benefits.

R&D Efforts: The MNCs are in a better position, in allocating funds for R&D. Naturally, they have sought mutual help by forming joint, ventures, sharing/pooling research, and cross, licensing new products and technologies. Technology driven cooperation agreements can confer may advantages as they can be cost efficient, can avoid duplication of efforts and lead 10 productivity gains.

The term "globalization" has acquired considerable emotive force. Some view it as a process that is beneficial—a key to future world economic development—as well as inevitable and irreversible. Others regard it with hostility, even tear, believing it increases inequality within and between nations, threatens employment and living standards, and thwarts social progress.

In reality, globalization offers extensive opportunities for truly, worldwide development but it is not progressing evenly. Some countries are becoming integrated into the global economy more quickly than others. Countries that have been able to integrate are seeing faster growth and reduced poverty. Outward-oriented policies brought dynamism and greater prosperity to

much of East Asia, one of the poorest areas of the world 40 years ago. And as living standards rose, it became possible to make progress on democracy and on such issues as the environment and work standards.

GLOBALIZATION

"Globalization" in its economic aspect refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders.

''At its most basic, there is nothing mysterious about globalization. The term has come into common usage since the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions—both trade and financial flows. It refers to an extension beyond national borders of the same market forces that have operated for centuries at all levels of human economic activity—village markets, urban industries, or financial centers.

Markets promote efficiency through competition and the division of labor—the specialization that allows people and economies to focus on what they do best. Global markets offer greater opportunity for people to tap into more and larger markets around the world. It means that they can have access to more capital flows, technology, cheaper imports, and larger export markets. But markets do not necessarily ensure that the benefits of increased efficiency are shared by all. Countries should be prepared to embrace the policies needed both for the country to benefit from globalization and to ensure that its benefits are shared fairly. The poorest countries, and others, may need the support of the international community as they do so. Arc Periodic Crises an Inevitable

Consequence of Globalization?

The succession of crises in the 1990s—Mexico, Thailand, Indonesia, Korea, Russia, and Brazil—suggested to some that financial crises are a direct and inevitable result of globalization. Indeed, one question that arises in both advanced and emerging market economies is whether globalization makes economic management more difficult.

Clearly the crises would not have developed as they did without exposure to global capital markets. But neither could most of these countries have achieved their impressive growth records without those financial flows.

These were complex crises, resulting from an interaction of shortcomings in national policy and the international financial system. Individual governments and the international community as a whole are taking steps to reduce the risk of such crises in the future. At the national level, even though several of the countries had impressive records of economic performance, they were not fully prepared to withstand the potential shocks that could come through the international markets. Macroeconomic stability, financial sector soundness, open economies, transparency, and good governance are all essential for countries participating in the global markets. Each of the countries came up short in one or more respects.

At the international level, several important lines of defense against crisis were breached. Investors did not appraise risks adequately. Regulators and supervisors in the major financial centers did not monitor developments sufficiently closely. And not enough information was available about some : international investors. The result was that markets were prone to "herd behavior"—sudden shifts of investor sentiment and the rapid movement of capital, especially short-term finance, into and out of countries. The international community is responding to the global dimensions of the crisis through a continuing effort to strengthen the architecture of the international monetary and financial system. The broad aim is for markets to operate with more transparency, equity, and efficiency.

That the income gap between high-income and low-income countries has grown wider is a matter for concern. But it is wrong to jump to the conclusion that nothing can be done to improve the situation. To the contrary: low-income countries have not been able to integrate with the global economy as quickly as others, partly because of their chosen policies and partly because of factors outside their control. No country, least of all the poorest, can afford to remain isolated from the world economy. Every country should seek to reduce poverty. The international community should endeavor—by strengthening the international financial system, through trade, and through aid—to help the poorest countries integrate into the world economy, grow more rapidly, and

reduce poverty. That is the way to ensure all people in all countries have access to the benefits of globalization. (Source: The World Bank Annual Report, 2000).

Questions

1) Explain the reasons for the emergence and growth of MNCs.
2) What are the various types of MNCs?
3) What are the benefits from MNCs?
4) What are the problems from MNCs?
5) Discuss the process of internationalization.

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UNIT – II

STRATEGIC MANAGEMENT OF MNCs

Objective of this lesson is to help learners to understand and comprehend.

i) Strategic Management of MNCs

ii) Components of Strategies (Corporate level, business level and functional level) and

iii) SWOT Analysis.

STRATEGIC MANAGEMENT OF MNCS

Business Management to day involves more than any thing else the aligning of an organization with its` environment. Effective aligning with the environment is what strategic management wants to achieve/Environment provides opportunities and wields threats. An organization should try to exploit opportunities, and overcome threats. Strategic alliance with the environment helps exploiting the opportunities and overcoming threats, hi the process' organization strengths are multiplied and weakness is reduced. Strategic alliance" with the environment needs to be carefully executed. Strategic management involves effecting the strategic alliance with the environment needs to be carefully planned and tactfully executed. Strategic management involves effecting the strategic alliance of the organization with the environment by formulating strategies directed at effecting the alliance. Formulation of strategies directed and implementation of the same thus constitute the core functions of strategic management.

The term strategy refers to the art of knack of commanding and maneuvering resources to .attain a decisive advantage through fruitful exploitation of opportunities provided by the environment or keeping at bay certain threats wielded by the environment. Liberalization and globalization are changes in the business environment with new found opportunities and expected and unexpected threats. For instance, business can now tap foreign capital resources an opportunity. At the same time in the domestic product market competition builds up a threat, through strategic alliances competitive forces are converted into collaborative efforts for common benefits. Thus strategic among

competing businesses are strategic responses of businesses to the changing environment.

Constituents of a Strategy

According to management expert Griffin, a strategy has essentially four basic areas. Scope, resource, uniqueness and synergy are these four areas.

The scope of strategy defines its functional, geographical, product service and relational limits.. Functional limits refer to marketing, production etc, geographical limits are concerned with markets covered. Product limits product lines and range. And relational limits deal with whether the dealings are internal to the organization or are external to the organization or both. Scope of a strategy thus prescribes the level of concentration or spread of the span of activities of the organization.

The resources of strategy refer to what and how much of the resources the organization will employ across various areas. Domestic or foreign private capital, fresh equity or accumulated reserves, senior or mid-level executives, in-house R&D or outsourced R&D, etc can be used is to be decided.

Uniqueness of a strategy refers to the distinctive competence of the organization on the strength of which the strategy is built to attain leverage over its competitors as well as other strategic alternatives. Close to consumers through own retail establishment, *-speed of* action, technological edge, etc may be the distinctive advantages.

Finally synergy of a strategy comes. Synergy is a system concept meaning that the output of the whole system is greater than the outputs" of the individual subsystems working independently of each other. The advantage of being a system is the Synergy; Should there be no synergy, there need to be no system. The scope, resources and uniqueness of the strategy should give synergistic result. While designing a strategy the management must see that all the four constituents of a strategy are present.

Strategic Mix and Strategy Formulation

The strategic-mix has three levels. At the top is corporate strategy, at one level below is the business strategy and, at the bottom is the functional strategy. There is hierarchy of strategies.

Corporate strategy is about the course .charted for the whole of the organization;. It deals with the 'what' aspect. It is also known as the "grand" strategy. Corporate strategy depends on the corporate, goal. And corporate goals could range from on the one end, a curtailment goal to on the other a diversification goal with status-quo and growth goals, in between. The curtailment goal calls for a retrenchment strategy. It is a bold attempt to do away excess fat, unit that are causing entropy, divisions that are not' pro-synergistic and functions that have lost strategic significance. In a way it is about turn-around or downsize of an organization. Most public sector units need this strategy at present. The status-quo goal calls for a stability strategy. Here the organization is pretty happy with the present. It neither wants to add on a few wings nor shed some feathers. It is a consolidation-oriented goal. And hence adopted after retrenchment or after hectic growth phase or so. Mature companies adopt this strategy. The expansion goal calls for growth strategy, wherein scale advances through more geographical coverage are attempted. There is "geographical" spread and rise in market share. Market .coverage; is being mastered here.

Finally, backward and forward expansion goal comes with a diversification strategy. Related and unrelated diversifications are possible. It should be noted that competitive distinctiveness and synergy are not lost. It is quite possible with unrelated diversification strategic management may call for division of the business into strategic business units (SBUs), each with own mission, vision and strategic initiatives. Then with respect to each such SBU, suitable corporate level strategy may have to be drawn up. Corporate level strategic alternatives for "stars," "cash cows," "question marks" and 'dogs' may have to be formulated.

In formulating corporation strategy, indepth environmental analysis and organizational analysis need to *he* made to know. how the strengths and weaknesses of the organization can be matched with opportunities and threats of **the** environment.

Business strategies are concerned with the environment. There are four approaches here. Griffin puts up them as follows. Defender, Reactor, Analyser and Prospector strategies are these. These strategic alternatives emerge fro certainty-uncertainty conditions of the environment and the firm's response.

Defender strategy is of most unassuming form. It is pro-status-quo. The firm is satisfied with the present. This is suitable in a certainty environment. The firm perhaps has a narrow niche market. The firm has no big ambitions. But when discontinuous changes take place in the environment, the firm adopting defender strategy might have no territory to defend. It can, however, work if distinct and core competences are the bases on which the firm's plans and actions arc founded.

Analyser strategy is one where the firm is not silent, but steadily modifying its course in tune with the changing environment and competitors' strategies. It suits the risk-type environment, where, which way the environment is changing, can be known by adopting probabilistic forecasting models. New products and markets are scouted for in a moderate way. Laggards are gently given up, while cash-cows receive the full threat. A mix of diversification, expansion and retrenchment goals are thus found here.

Prospector strategy looks out for new opportunities and learns about the same. In an uncertain environment discontinuous changes are the reality. So prospector strategy suits such environment. Exceptional ability to give up old customs and imbibe new cultures is the backbone of the prospector strategy.

Reactor strategy has found favour with a few. It is ill-conceived one and as such is not need to environment. No opportunity is reaped but quite a number of threats are faced. In the end, instead of strengthening strengths, weaknesses get strengthened. A vicious circle perhaps results here to the detriment of the firm.

Functional strategies address the operative function?, areas like production, marketing, finance, personnel and R&D. production strategy addresses choice of plant, location, scale of production, etc. Marketing strategy deals with 5 Ps product, place, price, promotion and public relations. Finance strategy governs capital structure, assets portfolio, risk-return trade-off, working capital management etc. Personal strategy is concerned with recruitment, selection, compensation, development and separation of human resources- And R&D strategy deals with R&D base, support, competitiveness, etc.

Functional strategies are more action-packed. These should be clear-cut and address very specifically the "how much" aspect. Strategy implementation calls for an organization structure, communication system, human resources and leadership.

Organizational structure gives the frame work of authority, responsibility and accountability. It provides functional break-up together with interfaces essential for specialization and synergisation. An organic structure with open system orientation is most suited for strategy implementation. Communication system is the linking loop of different ends. No communication means no move forward. Budget allocation, physical and financial targets, achievements and deviations need to be communicated so that coordination and cooperation can be affected.

Human resources are the means. To implement a strategy means taking up series up tactical decisions and activities. And human resources need to be groomed well td, ensure proper implementation. Leadership responsibility is all pervasive right from structure to communication system and to the grooming of human resources. It is the super ordinate factor binding together all the subsystems involved in strategy implementation. Hence it is great significance.

Formulation and implementation of different levels of strategies are linked. Corporate strategies are formulated and implemented first. This leads to formulation and implementation of business strategies. Then follow the formulation and implementation of functional strategies. The Board of Directors and CEO formulate cooperate strategy, implementation by CEQ. The CEO and functional heads formulate the business strategies. Respective functional heads with own deputies and others formulate and implement respective functional strategies. Linkpins are thus involved from one level up to the next down in the ladder **to** ensure strategy.

COMPONENTS OF STRATEGIES

Strategy is a comprehensive master plan of business enterprise explaining the process to achieve its mission and objectives. It contributes to maximize competitive advantage and minimise competitive disadvantage.

Strategy is about setting the architecture of the business.

Hammel and Prahalad have expressed that "Strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value".

J. David Hunger and Thomas L. Wheelen in their book "Essentials of strategic management" have defined strategic management as, "Set of managerial decisions and actions that determines the long-run performance of a corporation". It includes

i) Environmental scanning (external and internal)

ii) Strategy formulation

iii) Strategy implementation and

iv) Strategy evaluation and control

F.W.Gluck, S.P.Kaufman and A.S.Walleck, in their article, "The four phases of strategic management" published in Journal of Business Strategy have listed four phases of strategic management. They are given below:

- Basic Financial Planning
- Forecast Based Planning
- Externally Oriented Planning

STRATEGIC MANAGEMENT

There are three types strategies

1. Corporate Strategy
2. Business Strategy
3. Functional Strategy

Corporate Strategy

It explains overall objective of a business enterprise, expected growth and management practices of various business units and product lines. It is designed in terms of stability, growth and divestment.

Business Strategy

It is designed at the business unit or product level. It concentrates to strengthen the competitive position of products and services of the company. It helps to increase competing strength and maximise market share.

Functional Strategy

Individual strategy designed to various functions of the enterprise is known as functional strategy. Production, marketing, research and development, human resource development, financial management are functions of the enterprise. Strategies are fixed for all functions to achieve functional objectives.

1. CORPORATE STRATEGY

It is the growth design of the firm: It is the strategy to achieve the growth of the firm. It shows direction, extent, and timing of the firm's growth.

Corporate strategies have been classified into four generic strategies.. They are,

- Stability Strategy
- Expansion Strategy
- Divestment Strategy
- Combination Strategy

Stability Strategy

- Staying with the same business, same product-market posture and functions, maintaining same level of effort
- Suitable to firms having modest growth objective - safety-oriented - no fresh investments — risk is less.

Expansion Strategy

- It is the opposite of stability strategy. Rewards are limited in stability strategy. In expansion strategy rewards are very high and risk is very high. It is a growth strategy.
- In this stage redefinition of business is required and fresh investments are made to facilitate new businesses.
- Expansion is done through intensification and diversification.
- Videocon is on the verge of signing on the dotted line to acquire South Korean Daewoo's Consumer Electronic Business worldwide. The acquisition costs around $500-600 million. The acquisition would bring

Daewoo's consumer electronics business, including LCD TVs, Plasma TVs and components into Videocon's fold strengthening its position in the industry. It is the expansion strategy of Videocon.

- Market penetration strategy, Market development strategy and product development strategy are strategies under internsification route.
- Vertically integrated diversification, concentric diversification and conglomerate diversification are strategies under diversification route.

Divestment Strategy

- It refers retrenchment of some of the activities in a given business or sell-out of some of the businesses as such.
- It requires redefinition of business
- Obsolescence of product/process, business becoming unprofitable, high competition, industry over capacity and failure of strategy are the causes of divestment strategy.

Combination Strategy

- It is the combination of generic strategies - stability, expansion and divestment
- Application of combination strategy depends upon the changes in the competitive market and strategies required to meet the challenges of the everchanging market.

2. BUSINESS LEVEL STRATEGY

It is a strategy that will shape the future of the business unit concerned.

- Business level strategy is essentially a competitive strategy
- It serves as interface between the business unit and its market.

Objectives of Business Level Strategy

1. Meeting competition

2.Protecting the market share

3. Achieving the desired profit

- Business level strategy aims to improve the competitive position of a business unit's products or services. It may be competitive strategy or cooperative strategy. Competitive strategy means battling against competitors for advantage. Cooperative strategy means working with one or more competitors. Business strategy explains how a business unit should compete or cooperate in a market.
- Business level objectives and business level strategy are interrelated. Objective is the base for strategy.
- Business level objectives :

  Growth of sales volume and revenue, market share, market standing and profit – productwise. All objectives should be quantified. Business strategy creates defendable position to a business unit.
- There are two routes to business level strategy:

  They are (1) price route and (2) differentiation route
- Price route = cost leadership and low cost strategy
- Differentiation route' means differentiation in marketing mix other than price mix
- Cost leadership strategy
- It is a low cost competitive strategy that aims at the broad mass market. Under this strategy firms compete on the strength of pricing. Price serves as competitive lever. This strategy helps to offer lower prices and to achieve targeted profits at lower prices.
- Favourable conditions to achieve cost leadership:

  1. Efficient economies of scale
  2. Benefits of early entry
  3. A large market share
  4. Locational advantage
  5. Synergy among different businesses in production and marketing
  6. Cost control measures
  7. Dropping unprofitable segments, products and brands

8. Minimum cost in R & D, Sales force and advertising

9. JIT Inventory

10. Cost efficient technology

11. Automation

Cost leadership strategy – Example Nirma. The price of Nirma detergent cake was the lowest among the various detergents in the market. Nirma succeeded with the cost leadership strategy.

Company : IBM

Differentiation : Technology and Service

Differentiation Strategy :

Differentiation strategy refers offering products and services that are distinctive from all competitors. Products features, the service and the various functions offered by a company serve sources of differentiation

IBM - technology and service, Caterpillar - global dealer network. Rolls Royce - quality, Coca Cola and Pepsi – brand image

Differentiation is a dynamic and powerful route in competitive strategy. In certain markets, differentiation is given priority than the price. It helps a business unit to compensate the disadvantages of price-based strategy.

Favourable conditions needed for implementing differentiation strategy:

1. Brand Image
2. Channel clout
3. Competent structure
4. Unique process
5. Integrated production facilities
6. Flexible production facilities
7. Advanced R & D facilities
8. Product innovations

Focus Strategy

- Cost focus is a lower cost competitive strategy that focuses on a particular buyer group or geographic market and attempts to serve only this niche, to the exclusion of others.
- Differentiation focus is a differentiation strategy that concentrates on a particular buyer group, product line segment or geographic market.

3. FUNCTIONAL STRATEGY

It is the approach a functional area takes to achieve corporate and business unit objectives.

It is concerned with developing and nurturing a distinctive competence in a functional area to strengthen competitive advantage of a company or business unit.

A multinational company will design its corporate strategy based on its objectives. The same multinational company will have various business units. All business units will design their own business level strategies based on the objectives. There are various functions / departments in one business unit. The functional departments will design their strategies based on the departmental objectives. Functional departments are, manufacturing, marketing, finance, research and development and human resource management. The listed functional departments will design their functional strategies.

Quality assurance with low cost, high volume of production and productivity are objectives of manufacturing department. Strategies are required to achieve objectives. Hiring and training of highly skilled workshop are the objectives of personal department.

Marketing strategy deals with pricing, selling and distributing a product.

Market development strategy deals with market penetration and new product development. Business can improve its market share through market development strategy. Procter & Gamble, Colgate-Palmolive and Unilever follow this strategy

Under product development strategy, a business unit can develop new products for existing markets or develop new products for new markets.(Arm &

rammer brand is baking soda manufactured by Church & Dwight. This company developed new uses for its sodium bicarbonate by reformulating it as toothpaste, deodorant, and detergents. This company followed second product development strategy by developing pollution reduction products (using sodium compounds) for sale to coal-fired electrical plants).

Push and pull strategy

Push strategy - spending a large amount of money on trade promotion in order to gain shelf space in retail outlets.

Pull strategy - using advertising to increase consumer demand and to build brand awareness so that shoppers will ask for the products.

Financial strategy

It attempts to maximise the financial value of the firm. It identifies the best financial couse of action. It provides competitive advantage through a lower cost of funds and a flexibility to raise capital to support a business strategy. Management of dividends to stockholders is an important part of a corporate financial strategy.

R& D Strategy

It deals with product and process innovation and improvement. A particular MNC may be a technological leader or technological follower. The MNC 'Nike' has achieved specified competitive advantage through its research and development. The Nike differentiates its athletic shoes from its competitors in terms of performance. Nike products have become favourites to the serious atheletes. The Nike is the technology leader. Some MNCs may be technological followers. They will follow the technologies developed by other companies. Technological leaders will occupy a major share in the world market and they will be market leaders. Technology will be a base to build competitive advantage. 'Kodak' and 'Fuji' are leaders in the world market. They are technologically competitive.

OPERATIONS STRATEGY

It determines

(1) how and where a product or service is to be manufactured,

(2) the level of vertical integration,

(3) the deployment of physical resources,
(4) the relationship with suppliers,
(5) optimum level of technology the firm should use in its operations processes
(6) use of CAD,
(7) flexible manufacturing systems,
(8) automatic-guided vehicles, robotics,
(9) manufacturing resource planning,
(10) higher productivity and just-in-time delivery.

Mass customisation strategy - It requires that people, processes, units and technology reconfigure themselves to give customers exactly what they want, when they want it. The result is low-cost, high-quality, customised goods and services.

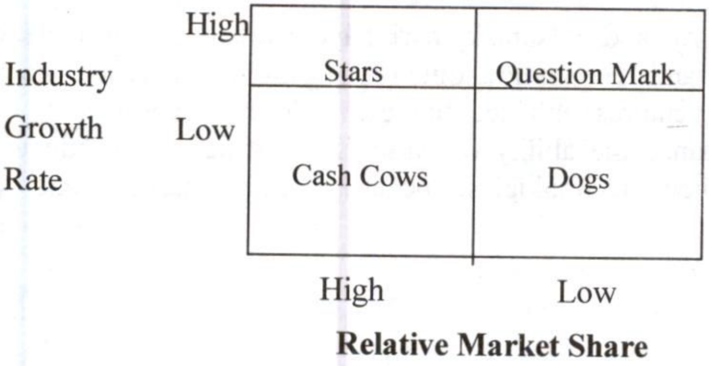
Human Resource Management Strategy attempts to find the best fit between people and the organisation.

INFORMATION SYSTEM STRATEGY

It attempts to use information technology to provide business units with competitive advantage, it strengthens relationships with both their customers and suppliers and to improve efficiency through sophisticated intranets.(Federal Express - by using its website customers can track location of their packages)

Multinational companies have to design their corporate strategies based on their market share and industrial growth. The Boston Consulting Group (BCG) matrix explains the status of the corporate houses in their market.

BCG Matrix



The vertical axis denotes the rate of growth in sales in percentage for a particular industry. The horizontal axis represents the relative market share, which is the ratio of a company's sales to the sales of the industry's largest competitor or market leader.

Stars – Stars are high growth and high market companies. Such companies may or may not be self-sufficient in terms of cash flow. The star companies products will be in the growth phase of the product life cycle. Star companies can go ahead with expansion strategy.

Cash Cows – Cash cows are companies which generate large amounts of cash but their rate of growth is slow. Cash cow companies products will be in the maturity phase of the products life cycle. Cash cow companies can go ahead with stability strategy in order to retain maturity stage in the product life cycle.

Question Marks – Question mark companies are companies with high industry growth but low market share. Question mark companies are called 'Problem children'. They require a large amount of cash to maintain or improve market share. Question mark companies products will be new products in the market with a good commercial potential. The products will be in the introductory phase of the product life cycle. Question mark companies can go ahead with expansion strategy. Otherwise the alternative will be retrenchment strategy. Question mark companies require investments to go ahead with expansion strategy. If investment is not made, question mark companies will become dog companies.

Dogs – Dog companies are companies related to slow industry growth rate and low market share. The products of dog companies will be in late maturity or declining stage. Dog companies neither generate nor require a large amount of cash. Retrenchment strategy is suggested to dog companies.

V.S.Ramasamy and S.Namakumari have explained that joint ventures constitute a fast and economic route for gaining increased competitive capabilities. Joint ventures enhance the competitive capabilities of both the partners. They enhance the ability of partners to create new products, reduce costs, introduce new technologies, penetrate new markets and preempt competition.

BUSINESS STRATEGIES OF SELECTED COMPANIES ARE GIVEN BELOW:

Suzuki to invest another Rs. 3000 crore into India

SUZUKI has announced it will invest an additional Rs 3000 crore over and above the Rs 6000 crore investment already announced for new models, the new car plant and diesel engine production. This latest announcement takes the investment tally up to 2010 to Rs 9,000 crore. Suzuki big chief Osamu Suzuki also indicated that talks are on with its alliance partner Nissan for another car plant in India which if it goes through will require a further investment of Rs. 2,500 crore. As part of Suzuki's five-year plan for Maruti, the Japanese major will invest in the diesel engine facility and in the new car plant.

Suzuki Motor Company plans to export 100,000 units of this new car which will be jointly developed by Nissan and Suzuki and will be slightly smaller than the Swift. It plans to sell 50,000 units of this model in India. The new plant will also supply another 50,000 units of this model to Nissan for export to Europe.

Hero Honda to roll out 7 New Models

BIKE market leader Hero Honda will roll out seven new models in the next six months. Hero Honda MD Pawan Kant Munjal said: "Yes we are planning to launch seven new models before the end of the financial year. The new models will focus more on motorcycles and will target all segments of the market from entry-level commuter to executive to premium."

The company is investing Rs 250 crore in ramping up capacity at its existing plants in Gurgaon and Dharuhera, Mr M Linjal said. As for its proposed third plant in Jaipur, Hero Honda "is still waiting for government clearances," Mr. Munjal said. The delay over Jaipur has meant that part of the investment intended for that plant has gone to **Hero** Honda's Haridwar facility.

FMCG Major Cavinkare Divests Packaging Arm

Chennai-based FMCG major CavinKare has fully divested its packaging business to Essel Propack, for a consideration of Rs 63 crore, Essel Propack, a speciality packaging company and manufacturer of laminated tubes, has

acquired 100% stake in Packaging India (PIPE), the Pondicherry-based packaging arm of CavinKare.

CavinKare CMD C K Ranganathan, told **ET,** "the packaging business had grown in size over the years and the company had a Rs 100 crore turnover." The firm has a It debt of Rs 25 crore. "We have just a signed the deal. We noticed that there is a difference at the fundamental level itself. The conflict of interest meant that the comfort level has gone for a six. We also realised that we would like to focus more on FMCG. Therefore, only our packaging unit has been divested and CavinKare is very much in the FMCG turf." Packaging India has been offering innovative solutions to the confectionery, cosmetics, detergent/soap, food and beverage industries since 1991 and is the third largest producer of speciality packaging materials in the country. Besides CavinKare, it also provides packaging solutions companies like Britannia, Hindustan Lever, ITC, GM Pens and Henkel.

McDONALD'S PLANS NEW HOME DELIVERY FORMAT

FAST food major McDonald's will soon have a national foot-print for its McDelivery format. The quick service restaurant chain will roll out its home delivery format across the country-in a few months .

The chain has finalised a loll-free number which will lead all calls for home delivery to the store in the respective areas and orders would be recorded accordingly. The Indian fanchisees of McDonald's are jointly making substantial investment in telecom and logistics for the effort. He, however, declined to share the figure.

For areas which are congested and where access is difficult such as Chandani Chowk in Delhi, it has flagged off McDelivery on bi-cycles.

The ongoing initiative coincides with McDonald's 10 years in India and the chain has lined up major expansion plans in the coming months.

Nirma Plans Pharma Foray

NIRMA, the Rs 2,243 crore detergent-maker and owner of the Nirma brand, is betting big on the pharmaceutical sector. The company, is in the process of acquiring assets of the sick Core Healthcare, the largest intravenous fluid manufacturer in India. Nirma is drawing up plans to set up a separate

healthcare division — Nirlife for making its pharma foray later during the current financial year. The company is planning to launch a slew of products including large and small volume parenterals, products for renal care and specialised parenteral nutrition, which will be launched in the current financial year. The products will be launched in both the domestic and the international market. The company will launch the products under the same brand name 'Nirlife'.

The healthcare division will oversee complete pharmaceutical activity including production and marketing of products manufactured at core Healthcare's unit at Sachana in Gujarat. "The products which will be launched include small and large volume parenterals, total parenteral nutrition, intensive care, renal care and medical devices. The company is aiming to have a presence in the international market as well.

HLL Sets Stage for Stronger Brand – Play on Ayush Therapy

HINDUSTAN Lever has decided to increase the number of Ayush Therapy Centres (ATC) in an attempt to make up for lost time and capitalise on the positive consumer response these centres had generated in the initial years after their launch.

The maker of Dove beauty soap and Lipton tea will expand the number of centres to 40 by the end of 2006, from the present 26. By 2007, lever hopes to have about 100 such centres across the country.

Pantaloon Expands Pan-India Foot Print

PANTALOOR retail (PRIL) the Rs.2000-crore retail major is on an expansion mode. The company has acquired 4 million split land across the country and is planning the acquire another 46 million sqft by 2010. PRIL plans to "open over 4,000 stores in 90 cities under its various' brands such as Zone and Collection I. Furniture .Bazaar, Big Bazaar, Central. 'Mall, 'and Electronic bazaar with a target of Rs 30000 crore revenues by 2010

Henkel to add Sheen to Dishwash Mkt

Henkel India is looking to shine up the dishwashing segment by introducing new variants to its flagship brand Pril. Moving away from its 'vanilla network,' it is positioning its brand to suit urban-centric consumers.

In support of its repositioning exercise, new variants mango and vinegar, with a formulation that helps remove residual food odour, has been introduced. A 500 ml yellow colour mango variant pack is priced at Rs 5 5. The dishwashing segment contributes 15% of total turnover. The overall size of the dishwashing detergent market in India is about Rs 425 crore, while the market for dishwashing powder is estimated at Rs 120 crore. Whereas in Tamil Nadu, the powder has a dominant share with a Rs 80-crore market size, the bar market size is about Rs 20 crore. According to AC Nielsen, Pril, is a leader in the liquid dishwash category with over 80% market sharer.

Pepsi India to add Zing to Agri Biz

PEPSI India, having grown potatoes, seaweed and citrus fruits under its contract farming initiative in India during the last four years, is confident of growing its agri-business from the current $ 30 million to $ 100 million in the next three years. Among its plans are growing barley for liquor major United Breweries, processing tomatoes once again and exporting pomegranate juice concentrate, apart from expanding its existing seaweed and citrus fruits initiatives. (Source: Various Issues of The Economic Times).

SWOT ANALYSIS

The acronym SWOT stands for strengths, weaknesses, opportunities and threats. Any entity has its own strengths and weaknesses and it is surrounded by an environment which provide opportunities and wield threats. An organization, MNC or otherwise must take stock of its strengths and weaknesses and also of the opportunities and threats offered/posed by the environment and analyse how best it can negotiate with the environment gives its strengths and weaknesses and the latter's opportunities and threats. Such analysis is called SWOT analysis.

- *Strengths* These are the internal factors which are likely to enhance performance, such as having a well-trained sales force, efficient production and high-quality products.
- *Weaknesses* These are the internal factors which are likely to inhibit performance, such as excessive capacity (high fixed costs), obsolete designs and long delivery schedules.

- ❖ *Opportunities* These are the external factors which favour the organisation, such as effective distributors, compliance with legislation, presence in growing market segments, security of supply of critical components or competitors being reorganised.
- ❖ *Threats* These are the external factors which are likely to be to the organisation's disadvantage, such as strengthening currency making imported competition less expensive and exports more expensive, recently introduced competitive products, or substitutes able to offer comparable benefits to customers.

Strengths. In the context of MNCs, the strengths of individual MNCs differ. But generally their strengths i) Research and Development infrastructure, ii) enough resources to spend on market promotion, iii) brand equity built through years of brand building, iv) a management culture that is adaptive to changing needs of the environs, v) clout over political bosses in most countries, vi) ability to tide over troughs and droughts in profits, vii) significant market shares, viii) presence in different markets across the globe, ix) strong leadership and x) ability to taken on competition head-on by innate skills.

Weaknesses. The weaknesses of MNCs are few and differ among MNCs. The weaknesses of MNCs include: i) inability to reach deep into downstream markets, ii) inability to play 'swadeshi' cards and sentiments and iii) high labour and administration; cost.

Opportunities. The opportunities for MNCs include i) expanding global trade, ii) enhanced global investment, iii) liberalization drive by many governments, iv) privatization drive by many governments, v) globalization drive by many governments, vi) welcome patronage by consumers worldwide, vii) emerging unified business, finance, investment and' labour laws, viii) protection under TRIPS, TRIMS etc under WTO and other multilateral bodies, ix) widespread reception for global capital flows and x) widespread opportunities for mergers, acquisitions, strategic alliances and joint ventures.

Threats. The threats of MNCs include: i) agitations by Non-government organizations against the designs of MNCs, ii) agitations by communist and labours across the globe, iii) 'Swedeshi' sentiments expressed by influential personalities in each nation, iv) consumers outcry against exploitations by MNCs, v) global terrorism and specifically targeting assets of MNCs, vi) discriminative business laws against the MNCs in certain countries, vii) not-so-

feel good fueling that generally prevails in third world countries about MNCs and viii) competition among MNCs.

MNCs must make a thorough SWOT analysis. This will help aligning them with the environment very effectively. The strengths must be multiplied and opportunities added on and aggregated. The weaknesses must be subtracted and threats must be divided. This simple mathematics of SWOT will immensely help MNCs to have strategic advantages.

SWOT ANALYSIS OF INDIAN PHARMA INDUSTRY

INTRODUCTION

- It is often said that the pharma sector has no cyclical factor attached to it. Irrespective of whether the economy is in a downturn or in an upturn, the general belief is that demand for drugs is likely to grow steadily over the long-term. True in some sense. But are there risks? This article gives a perspective of the Indian pharma industry by carrying out a SWOT analysis (**S**trength, **W**eakness, **O**pportunity, **T**hreat).
- Before we start the analysis lets look a little back in the industry's last six years performance. The Industry is a largely fragmented and highly competitive with a large number of players having interest in it. The following chart shows the breakup of the growth (YoY) of Indian pharmaceutical industry in last six years.
- The SWOT analysis of the industry reveals the position of the Indian pharma industry in respect to its internal and external environment.

Strengths:

- Indian with a population of over a billion is a largely untapped market. In fact the penetration of modern medicine is less than 30% in India. To put things in perspective, per capita expenditure on health care in India is US$ 93 while the same for countries like Brazil is US$ 453 and Malaysia US$189.
- The growth of middle class in the country has resulted in fast changing lifestyles in urban and to some extent rural centers. This opens a huge market for lifestyle drugs, which has a very low contribution in the Indian markets.

- Indian manufacturers are one of the lowest cost producers of drugs in the world. With a scalable labor force, Indian manufactures can produce drugs at 40% to 50% of the cost to the rest of the world. In some cases, this cost is as low as 90%.
- Indian pharmaceutical industry posses excellent chemistry and process reengineering skills. This adds to the competitive advantage of the Indian companies. The strength in chemistry skill help Indian companies to develop processes, which are cost effect

Weakness

- The Indian pharma companies are marred by the price regulation. Over a period of time, this regulation has reduced the pricing ability of companies. The NPPA (National Pharma Pricing Authority), which is the authority to decide the various pricing parameters, sets prices of different drugs, which leads to lower profitability for the companies. The companies, which are lowest cost producers, are at advantage while those who cannot produce have either to stop production or bear losses.
- Indian pharma sector has been marred by lack of product patent, which prevents global pharma companies to introduce new drugs in the country and discourages innovation and drug discovery. But this has provided an upper hand to the Indian pharma companies.
- Indian pharma market is one of the least penetrated in the world. However, growth has been slow to come by. As a result, Indian majors are relying on exports for growth. To put things in to perspective, India accounts for almost 16% of the world population while the total size of industry is just 1% of the global pharma industry.
- Due to very low barriers to entry, Indian pharma industry is highly fragmented with about 300 large manufacturing units and about 18,000 small units spread across the country. This makes Indian pharma market increasingly competitive. The industry witnesses price competition, which reduces the growth of the industry in value term. To put things in perspective, in the year 2003, the industry actually grew by 10.4% but due to price competition, the growth in value terms was 8.2% (prices actually declined by 2.2%)

Opportunities

- The migration into a product patent based regime is likely to transform industry fortunes in the long term. The new patent product regime will bring with it new innovative drugs. This will increase the profitability of MNC pharma companies and will force domestic pharma companies to focus more on R&D. This migration could result in consolidation as well. Very small players may not be able to cope up with the challenging environment and may succumb to giants.
- Large number of drugs going off-patent in Europe and in the US between 2005 to 2009 offers a big opportunity for the Indian companies to capture this market. Since generic drugs are commodities by nature, Indian producers have the competitive advantage, as they are the lowest cost producers of drugs in the world.
- Opening up of health insurance sector and the expected growth in per capita income are key growth drivers from a long-term perspective. This leads to the expansion of healthcare industry of which pharma industry is an integral part.
- Being the lowest cost producer combined with FDA approved plants, Indian companies can become a global outsourcing hub for pharmaceutical products.

Threats

- There are certain concerns over the patent regime regarding its current structure. It might be possible that the new government may change certain provisions of the patent act formulated by the preceding government.
- Threats from other low cost countries like China and Israel exist. However, on the quality front, India is better placed relative to China. So, differentiation in the contract manufacturing side may wane.
- The short-term threat for the pharma industry is the uncertainty regarding the implementation of VAT. Though this is likely to have a negative impact in the short-term, the implications over the long-term are positive for the industry.

FASCINATING FACTS OF McDONALD

- Today, the company operates more than 23,500 restaurants in 109 countries
- Since its founding in 1955, McDonald's has sold well over 100 billion hamburgers
- McDonald's prepares more than 6.8 million pounds of French fries every day
- More than 50,000 students have graduated from "Hamburger University"
- Approximately 85% of McDonald's restaurant businesses world-wide are owned and operated by franchisees
- All franchisees are independent, full-time operators
- McDonald's was named *Entrepreneur's* number-one franchise for 1997

McDONALD STRATEGIC ISSUES

To Consistently Increase Shareholder Value through the Growth of Profits and Market Share in the Fast Food Industry

SWOT ANALYSIS OF McDONALD

STRENGTHS

- Brand Equity…world-wide
- 42% of US fast-food hamburger business
- Successful items: Fries, Happy Meal, Big Mac, Egg McMuffin, Promotions
- Overseas market
- Balance sheet position

WEAKNESSES

- Declining market share

- Weak product development
- Disgruntled franchisees
- Quality and taste of products

Whose food do Americans really like best?

Best-tasting food?

Wendy's 36%*

Burger King 32%

McDonald's 21%

Best-tasting burgers?

Burger King 42%

Wendy's 32%

McDonald's 17%

SWOT ANALYSIS – WEAKNESSES

- Declining market share
- Weak product development
- Disgruntled franchisees
- Quality and taste of products
- Slowed revenue and income growth

SWOT ANALYSIS : OPPORTUNITIES

- International expansion
- Only serving 1% of the world's population
- Growing dining-out market

SWOT ANALYSIS : THREATS

- Mature/overstored industry
- Strength of competition

- More health-conscious consumers
- Changing demographics
- Fluctuation of foreign exchange rates; Economies

PAST Mc STRATEGIES

- Product Development
  - Successes: Fries, Happy Meal, Big Mac, Egg McMuffin, Promotions
  - Failures: McPizza, Fajita, Carrot Sticks, McLean, and the Arch Deluxe
- Market Development
  - Success: International growth
  - Failure: Over-expansion in US
    - Alternative locations
- Joint Venture: Franchisees

NEW McSTRATEGIES

- Leverage Brand Equity
- Product Development: Focus on core business
  - Quality and taste issues
    - Food delivery methods
    - MBX (McDonald's Big Extra)
- Joint Venture (Franchisee): Change methods of dealing with franchisees
  - To better motivate owners and foster team spirit
  - Enhance owners' participation in process improvements

- Market Penetration and Development
  - Continue International expansion
- Retrenchment
  - Home office cost reductions
  - Splitting into five geographic divisions
- Horizontal Integration
  - Purchase competition with differing target markets (Source: MBA International Business, Seminar Papers).

Questions

1. What do you understand by strategic management of MNCs?
2. What is corporate strategy?
3. What is business level strategy?
4. Explain 'Functional Strategy'
5. What is SWOT analysis? Apply SWOT analysis to any one of the MNCs doing business in India.

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UNIT – III

OWNERSHIP STRATEGIES OF MNCs

Objective of this lesson is to help learners to understand and comprehend.

i) International joint ventures and their problems and prospects.

ii) International strategic alliances and their problems and prospects, and

iii) Mergers and their problems and prospects.

INTERNATIONAL JOINT VENTURE

Joint venture is a special case of consolidation where, "two or more companies from a temporary partnership for a specified purpose. The temporary, partnership is otherwise called 'consortium'. Thompson and Stickland have given four conditions causing the establishment of joint venture. The conditions are given below:

1) When an activity is uneconomical for an organization to do alone.
2) When the risk of business has to be shared and, therefore, is reduced for the participating firms.
3) When the distinctive competence of two or more organizations can be brought together.
4) When setting up an organization overcoming hurdles, such as facilities – import quotas, tariffs, nationalistic – political interest and cultural roadblocks.

Joint venture is an effective strategy when development costs have to be shared, risks spread out, and expertise combined to make effective use of resources.

TYPES OF JOINT VENTURES

Given below are five types of joint ventures.

Joint venture between –

1. Two firms in one industry

2. Two firms across different industries
3. An Indian firm and a foreign company in India.
4. An Indian firm and a foreign company in that foreign country
5. An Indian firm and a foreign company in a third country.

Advantages

The important advantages of joint venture are given below:

1) Participating firms achieve their objectives mutually
2) Reducing competition
3) Increase in market share
4) Diversification strategies can be introduced by participating firms if joint venture is created across different industries.
5) Technology transfer becomes easy
6) Joint ventures overcome quota restrictions, tariff and non-tariff barriers and cultural roadblocks, when two companies from different countries having different cultures and trade policies from joint venture.
7) Minimizing risk among the joint ventures partners.
8) Reducing individual partner's investment.
9) Entering into new fields of business.

Disadvantages

The disadvantages of joint venture are given below:

1) Problems in equity participation and deciding the share of individual partner in total capital.
2) Foreign exchange regulations and control applicable to two companies in two countries.
3) Inadequate cooperation among participating firms.
4) Cultural behavioural differences among the partners.
5) Possibilities of conflict among the joint ventures partners.

Examples of Joint Ventures

1) IBM World Trade Corporation and Tata Industreis Ltd. Entered into a joint venture.
2) TELCO and Cummins Engine Company formed a joint venture.
3) Reliance Industries and Nynex Corporation, A.V.Birla Group and AT & T and Essar Group and Bell Atlantic have formed joint venture.

STRATEGIC ALLIANCES

Allen and Hamilton define strategic alliance as a cooperative arrangement between two or more companies where

i) a common strategy for a win-win attitude is adopted by all parties,

ii) the relationship is reciprocal with each partner prepared to share specific strengths with each other,

iii) a pooling of resources, investments, and risks occur for mutual gain.

Mehta and Samanta have defined strategic alliance as, "a cooperation between two or more independent firms involving shared control and continuing contributions by all partners for mutual benefits.

After the implementation of liberalized trade and investment policies in developing countries, strategic alliances have become common to increase market share and volume of sales in the world market.

Yoshino and Ranyan define strategic alliances in terms of three necessary and sufficient characteristics.

i) Two or more firms unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance.

ii) The partner firms share the benefits of the alliance and control over the performance of assigned tasks – perhaps the most distinctive characteristic of alliances and the one that makes tem so difficult to manage.

iii) The partner firms contribute on a continuing basis in one or more key strategic areas, for example, technology, product etc.

TYPES OF STRATEGIC ALLIANCES

Azhar, Kazmi, in his book, 'Business Policy and Strategic Management' has listed and explained four types of strategic alliances. They are given below:

1. Procompetitive alliances (Low interaction / low conflict)
2. Non competitive alliance (High interaction / low conflicts)
3. Competitive alliance (High interaction / high conflict)
4. Pre competitive alliance (Low Interaction / high conflict)

   1. *Procompetitive alliances (Low interaction/Low conflict):* These are generally interindustry, vertical value-chain relationships between manufacturers and their suppliers or distributors. Such alliances offer the benefits of vertical integration without firms actually investing in resources for manufacturing inputs or distributing semi-finished or finished goods. Supplier and buyer firms entering upon long-term contracts constitute procompetitive alliances.
   2. *Noncompetitive alliances (High interaction/Low conflict):* These are intraindustry partnerships between noncompetitive firms. Such alliances can be entered upon. by firms that operate in the same industry yet do not perceive each others as rivals. Their areas of activity do not coincide and they are sufficiently dişsimilar to prevent feelings of competitiveness arising. Firms to have carved out distinct areas in the industry—geographically or otherwise, adopt the noncompetitive alliances
   3. *Competitive alliance (High interaction/High conflict):* These are partnerships that bring two rival firms in a cooperative arrangement where intense interaction is necessary. These alliances may be intra- or inter-industry. Several foreign companies operating independently in India and also entering into a cooperative arrangement with local rival companies for specific purposes have taken the competitive alliances route.
   4. *Precompetitive alliance (Low interaction/high conflict):* These partnerships bring two firms from different, often unrelated industries to work on well-defined activities, such as, new technology development, new product development or creating

awareness about new products or ideas for acceptance among the potential customers. Joint research and development activities and mass awareness campaigns are examples of precompetitive alliance activities.

Advantages

The advantages of strategic alliances are given below:

1) Enhancing organizational capabilities and achieving competitive advantage
2) Access to new markets and new supply sources
3) Optimum utilization of resources and companies will increase their productivity and profitability.
4) Reducing manufacturing costs
5) Developing and diffusing technology
6) It will help to implement marketing strategies quickly in order to compete in the competitive global market.
7) It will create synergy to the partners.

Examples of Strategic Alliance

TVS – Suzuki, Mahindra – Ford, BPL – Sanyo, Ranbaxy – Eli Lilly, Videocon – Sansui

The strategy related to strategic alliance should be consistent with the corporate strategies of the partners. The responsibilities of the partners should be defined property. Strategic alliance agreement should be well drafted specifying participatory role of all partners. In strategic alliances all partners should have consistent commitment to shared goals.

The strategic alliance does not work merely by following and implementing the various clauses of the strategic alliance agreement, but it is the mutual understanding, cooperation and consent between the alliance partners that will create success in strategic alliance. When two companies from different parts of the world market come together to enter into a strategic alliance, it is absolutely necessary to blend their cultures for maintaining the strategic alliance

successfully. In all strategic alliances agreement, there should be a exit clause, in case the alliance unfortunately does not work or incase the objectives are not achieved.

Lack of trust and commitment, perceived misunderstanding among partners, conflicting goals and interests, inadequate preparation for entering into alliance and hasty implementation of plans will make the strategic alliances unworkable and unsustainable.

MERGER

Merger is defined as combination of two or more companies into a single company where one survives and other(s) lose(s) its/their Corporate existence. The survivor acquires the assets as well as liabilities of the merged company or companies.

It can also be defined as the fusion of two or more existing companies. All assets, liabilities and. stock of one company stand transferred to transferee company in consideration of payment in the form of equity shares of transferee company or debentures or cash or a mix of these modes. It may involve either absorption or consolidation.

ACQUISITION

It is purchase by one company of controlling interest in the share capital of another existing company. This means that even after the takeover although there is change in the management both the firms retain their separate legal identity, in other words, this may be defined as an act of acquiring effective control by one corporate over the assets or management of the other corporate without any combination of both of them.

It can be characterized in terms of the following:

a) The corporate remain independent.

b) They have a separate legal entity.

Categories of Mergers and Acquisition:

Merger and Acquisition depends upon purpose, the offerer company wants to achieve. Based on the offerer's objective profile, combinations could be Horizontal, Vertical or Conglomeritic etc.,

Horizontal Merger: It is merger of two competing firms which are in the same line of business.

Vertical Merger: It is a merger of one company with another which is involved in a different stage of production or distribution process thus espousing backward integration to assimilate the sources of supply and or forward integration towards markets outlets.

Conglomerate Merger: It is an amalgamation of two companies engaged in different line of business.

OBJECTIVES

Mergers are well-recognized commercial practices for growth and diversification of manufacturing, business and services activities. The overriding goal for merger or acquisition is the maximization of the owners' wealth. Specific motives as discussed below should be pursued when they are believed to be consistent with owners' wealth maximization. (Source: Seminar Papers, Recent Trends in India's Foreign Trade held in Alagappa University, Karaikudi).

Economy of Scale:

When larger volume of operation is performed for a given level of overhead of investment, average cost will be reduced. So, by increasing the volume of business- one can reduce cost.

Economy of Scope:

The cost of offering various products and services by different units will be greater than that of the cost, when they are provided by one unit. In this way by providing various services, one can increase the revenue.

Growth or Diversification:

Merger or acquisition can be used to fulfill the desire of rapid growth in size or market share or diversification in range of products and services. By merging or acquiring an existing firm that provides services other than what are provided by us. In this way, it can save a lot of funds, time and various risks by acquiring a suitable going concern. We can also increase the products and services for the benefit of our existing customers.

Avoid/Reducing Competition:

Competition among the units providing the same product/services in some area of operation may be reduced through mergers and acquisitions. Use of the best human resources available in both the firm can result in maximizing the profit.

Rehabilitation of sick Units might allow claiming of tax concessions u/s 72 of Income Tax Act,1961:

Tax benefits may be allowed in the form of carry forward of loss and unabsorbed depreciation in case of sick unit with a healthy unit. Thus mergers and Acquisitions can help in granting us certain amount of tax benefits also. It becomes the shorter routes to achieve that size and scale in a shorter time in a bid to cash up with the global multinational.

SYNERGY EFFECT

Synergy is simply defined as 2 + 2 = 5 phenomenon. The value of the company formed through merger will be more than the sum of the value of the individual companies just merged

Symbolically

$V(A)+V(B)<V(AB)$

$V(A)$=Value of A Ltd.

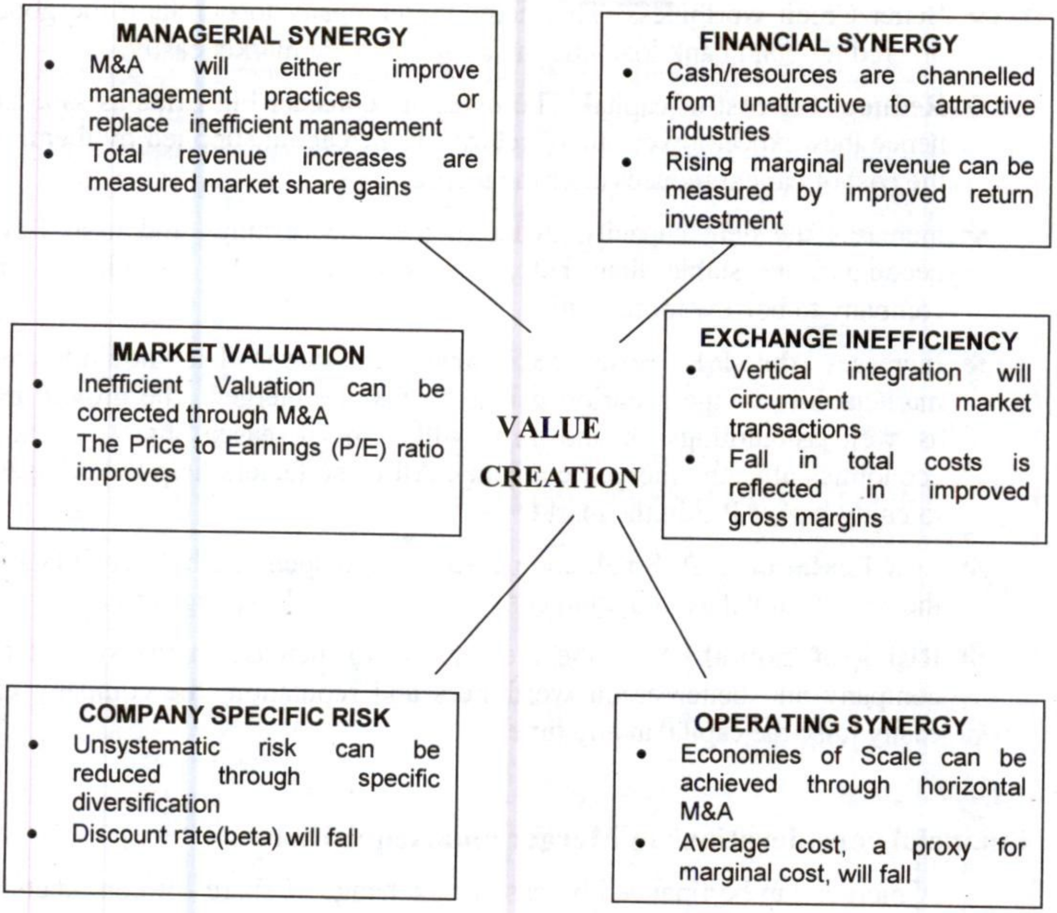
$V(B)$= Value of B Ltd.

$V(AB)$ = Value of merged company.

Framework for Optimizing M&A Value

Any company contemplating an acquisition must familiarize itself with the simple facts that external growth in an extremely competitive marketplace, and the profitability of increasing shareholder wealth via such growth, is low. Two broad types of research provide this warning. Academic studies have, typically, looked at the ex ante market reaction to the announcement of a merger, taking into account not only expected costs and benefits of the deal, but also the market's expectation that the deal will actually be consummated. The other approach is ex post, looking at the success or failure of merger programmes after

their completion. The bad news for potential acquirers is that neither approach provides grounds for an optimistic forecast. Therefore, M&A programmes must be carefully conceived and executed.



If the cost of acquisition - the premium is larger than the potential synergies, M&A will be unsuccessful

Premium = Price Over Market Value PLUS Other Costs Of Integration

Net **Value** Gain = Synergy MINUS Premium

Financial Synergy

The following are the financial synergy available in the case of mergers:

- ❖ Better Credit worthiness: This helps the company to purchase the goods on credit, obtain bank loan and raise capital in the market easily.
- ❖ **Reduces the** cost of capital: The investors consider big firms as safe and hence they expect lower rate of return for the capital supplied by them. So the cost of capital reduces after the merger
- ❖ increases the debt capacity: After merger the earnings and cash flows become more stable than before, 'this increases the capacity of the company to borrow more funds
- ❖ Increases **the** P/E **ratio** and value per share: The liquidity and marketability of the security increases after the merger. The growth rate as well as earnings of the firm will also increased due to various economies after the merged company. All these factors help the company to enjoy higher P/E in the market
- ❖ Low **floatation** cost: Small companies have to spend higher percentage of the issued capital as floatation cost when compared to a big firm\
- ❖ **Rising of capital:** After the merger due to increase in the size of the company and better credit worthiness and reputation, the company can easily raise the capital at any time.

Financial considerations in Merger and Acquisitions

A merger can be financed by cash or exchange of shares or combinations of cash, shares and debentures.

Cash offer:

Here the shareholders of the largest company are paid cash in exchange of their shares in the target company

Share exchange:

Here the acquiring company issues shares to the shareholders of the target company in exchange.

Exchange ratio:

The determination of the exchange ratio is based on the value of shares of the companies involved in the merger. The basic objective of financial management is to maximize the shareholder's wealth even the merger decision is to be taken in the light of wealth maximization.

MERGER – WHY?

- There is an urge to consolidate like businesses, thereby reducing conflicts, and becoming more efficient from the cost standpoint. Example, the UB group which is merging its four spirits companies to form a Rs. 14,000 crore, United Spirits.
- If a group has one company with huge cash flows, and another with huge growth opportunities, bringing the two together
- When 1 plus 1 equals two — if not three as in some cases — it beefs up the balance sheet, which can come handy in making acquisitions, both local and global.
- It is a great opportunity to gain added capabilities and broaden the customer base. Example, By merging Tata Infotech into TCS, the latter can now offer more services, with added value.

In merger potential JV partners as well as private equity majors will find a consolidated entity, with larger capacities and higher market shares, more attractive. Example, Once Mr. Vijay Mallya creates United Spirits, his next plan of action is to bring in a partner, just as he did in the brewing business, that creates shareholder value.

Cash flow for growth, Create size and scale, Exploit synergies and Maximising investors wealth are advantages of merger.

GE buys a Bank

• General Electric agreed to acquire it first bank in the Philippines.

• Objective: strengthening its deals in fast growing emerging markets in Asia.

• GE consumer finance based in Stamford, acquires majority interest in Keppel Bank, Philippines for $25.8 million, established in 1897, oldeşt savings bank, with $90million in assets and 30 branches.

ADIDAS TAKEOVER REEBOK

• Adidas agreed to buy US based REEBOK the global number three for $3.8 billion in a move to close the gap on market leader Nike. It will compete Adidas' strength in Europe and the classic soccer and running sportswear business with Reebok's strong position in the USA and lifestyle fashion market. Cost savings $150 million annually

• Net income growth 10%p.a.

Questions

1. What are the problems and prospects of international joint ventures?
2. Explain the problems and prospects of international strategic alliances.
3. What is merger? What are its merits and demerits?

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UNIT – IV

STRATEGIC PLANNING AND IMPLEMENTATION

Objective of this lesson is to help learners to understand and comprehend.

i) Strategic planning and implementation process.

ii) Planning for competitive advantage and market leadership and core competence and

iii) Environmental scanning

STRATEGY PLANNING AND IMPLEMENTATION

Strategy means general programme of action and deployment of resources to attain comprehensive objectives.

Strategy refers the determination of the basic long term. Long term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals.

Example

Marketing strategy are evolved to increase the market share and volume of sales and to encourage customers to buy. The pull and push strategies should be planned to increase market share and volume of sales of a product. Cost leadership strategy and differentiation strategy are examples of strategies used to achieve objectives of marketing management. The two strategies are generally used by MNCs for market development and new product development. The MNCs assess the requirements of consumers periodically and design suitable strategy in all their functional areas to fulfil the requirements of consumers.

For example, of late consumers prefer soft drinks in pet bottles. Their preference for glass containers is reduced. After assessing the change in the preference of consumers both pepsi and coke have increased the percentage of pet bottles of serve soft drinks. The strategy of serving soft drinks in glass containers is changed into pet bottles. If this change is not happened, market share of pepsi and coke will come down and market share of competitors who use pet bottles will increase.

Strategy is also needed to built marketing strength for facing competition in the market. So competitive strategies are needed to withstand in the market. Pull and push strategies, and developing unique selling proportion are examples of competitive strategies. Core competence and competitive advantage are also basically required to MNCs to do their business in the world market.

Systematic planning is the base for designing appropriate strategies required to do business in domestic and international market.

STEPS IN STRATEGY PLANNING

Steps in strategic planning are given below:

1. Analysing profile of enterprise,
2. Studying purpose and objectives of business
3. Analysing internal environment
4. Analysing external environment
5. Designing corporate objectives
6. Formulating corporate strategy
7. Monitoring the strategy

1) Analysing profile of enterprise

Analyzing profile of enterprise shows where the company is and where it should go. Geographical orientation of the enterprise is to be decided to plan the corporate, business and functional level strategies. Analyzing objectives of the enterprise is also needed to design suitable strategies. The MNCs design their strategies based on their geographic orientation and culture of the consumers in the specific territories. The world soft drinks leaders Pepsi and Coke design their product strategies based on the market where they do business their soft drinks taste (combination or standard) will differ region to region in the world market. Automobile manufacturers will design the product strategy based on the transport infrastructure available in the country where they do business.

2) Studying purpose and objectives of business

The purpose and objectives of the business should be reviewed thoroughly to formulate the strategies needed to face the competition in the market.

The MNCs should keep in mind their mission and vision while designing corporate level strategies. V.S.Ramaswamy and S.Namakumari in their book 'Strategic planning' have defined mission as, "an expression of the corporate intent". Mission expression what the corporation stands for. It expresses the purpose of the corporation. It is an expression of the vision of the corporation, its founder / leader. It is an expression of the growth ambition of the firm. It explains what the company wants to become.

The MNCs should frame their mission and employees should be informed about it. Employees should follow the mission of their company and perform their tasks in such a way to fulfil the mission.

MNCs should raise the following questions before they design their strategies.

i) What is our mission?

ii) What is our ultimate purpose?

iii) What are you want to become?

iv) What kind of growth do we seek?

v) What business are we in?

vi) Do we understand our business correctly and define it accurately in its broadest connotation?

vii) Do you know our customer?

viii) Whom do we intend to serve?

ix) What would be the nature of this business in the future?

x) In what business would we like to be in, in the future? (Source: Strategic Planning – by V.S.Ramasamy and S.Namakumari)

Mission of a Selected MNCs

Mc Kinsey & Co.

"To help business corporations and governments to be more successful".

Cadbury India

"To attain leadership position in the confectionary and achieve a strong national presence in the food drinks sector".

Unilever

"The mission of an company, as William Hasketh Lever saw it, is to make cleanliness commonplace, to lessen work for women, to foster health, and to contribute to personal attractiveness that life may be more enjoyable for the people who use our products".

Systematic orientation should be given to employees of all levels of the enterprise regarding the need for the strategy at corporate level or business level or functional level, the process of designing the strategy and the level of their involvement.

3) Analysing internal environment

The MNCs study and review internal environment prevailing inside their enterprises for designing strategies for survival and growth. Analyzing internal environment deals with reviewing strengths and weaknesses of the enterprise, demand supply of various resources (material, men, money, machine, managerial talents and skills) in all (production, marketing, finance, human resource and research and development) departments of the enterprise. Organisational design, organizational climate, industrial relations and planning and control systems in all departments of the enterprise are analysed intensively for the purpose of planning and formulating the required strategies in functional areas in order to achieve the objectives of the enterprise.

Analyzing internal environment or internal appraisal is the process of assessing core competencies and competitive advantages of multinational enterprises. Internal appraisal helps on enterprise to build its strength to utilize opportunities in the growing market and defence against the possible threats.

Internal appraisal is a self analysis of a multinational enterprise. It helps identify the gap between the existing capabilities and the required capabilities for utilizing the emerging opportunities in the world market.

4) Analysing external environment

Analysing environment of an enterprise, especially external environment is a vital part of the strategic planning process. It attempts to identify opportunities to the business enterprises in the world market. The whirlpool corporation studied Indian environment before the introducing its washing (one two – one two) machine in India.

Analysis of external environment deals with studying cultural, social economic, legal, technological and economic factors and their influence or impact or business. Analyzing external environmental factors contributes to judge the extent of competition that may emerge in future and sources of competition. A firm's opportunities and threats are studied through external environment analysis and opportunity – threat profile is prepared.

5) Designing corporate objectives

After defining the objectives of the enterprise, mission and analyzing internal and external environment of the enterprise, MNCs establish or design their corporate objectives. The extent of growth the enterprise wants to achieve over a period of time is given in corporate objectives. The present level of performance and growth of performance expected in future are carefully studied to design corporate objectives. Available resources in the enterprise and resources needed to utilize opportunities that may emerge in the market in future are carefully studied while designing corporate objectives.

Corporate objective explains the expected growth of the enterprise in the years to come. Objectives of the enterprise should be designed in terms of profitability, productivity, technology, competitiveness, human resources and social responsibilities. These factors are determinants of success of the enterprise. The corporate objectives should be measurable and achievable within the prescribed period.

6) Formulating corporate strategy

After designing the corporate objectives, the MNCs have to formulate strategies to achieve the objectives. The success of strategic planning process depends upon the effectiveness of formulating corporate strategies. The objectives speak where the enterprise wants to go and strategies explain how to go. Corporate strategy aims to provide strategic direction to the enterprise and it matches growth requirements of the enterprise with the opportunities and threats in the market.

There are four generic strategy routes to a corporate enterprise. They are stability strategy, expansion strategy, retrenchment strategy and combination strategy. The MNCs can choose appropriate generic strategy to achieve their corporate objectives.

Resource Allocation

After designing corporate objectives and formulating strategy to achieve objectives, adequate resources – material, money, manpower, machine, management should be allocated to all functional areas of the enterprise. Resource allocation helps to achieve objectives through strategies. Resources should be allocated based on the priority allocated resources should be utilized optimally and they should not be idle and unproductive. Optimum resource allocation and optimum resource utilization will help to achieve corporate objectives within the stipulated time period.

Business Level and Functional Level Strategy

Corporate strategies, business level strategies and functional strategies are interrelated. Business level and functional level strategies are formulated in accordance with the corporate strategies. Similarly objectives of business units, functional areas are designed based on corporate objectives. Objectives of business units and functional areas of the enterprise contribute to achieve corporate objectives.

7) Monitoring the strategy

Corporate strategies, business level strategies and functional strategies should be monitored periodically to ensure their applicability and utility in the changing competitive business environment. The compatibility of a strategy is ensured in the strategy monitoring process. How far the strategies contribute to achieve objectives of the enterprise over a period of time should be studied under strategy monitoring process and appropriate changes may be made in the strategies based on the changing business environment and competition for the purpose of achieving corporate objectives. In some situations, need may arise to redesign objectives and reformulate strategies to achieve objectives of the enterprise.

COMPETITIVE ADVANTAGE – FELT NEED TO SUCCEED

A competitive advantage is essentially a position of superiority on the part of the firm in some function/factor/activity in relation to its competition. It is through this superiority that the firm attempts to carve out a comfortable position for itself h the relevant industry. A company can gain superiority in due

course of time in any one or more of the functions such as marketing, production, finance, new product development, advertising, research and development, brand management etc.

Competitive advantage exists when there is a match between the distinctive competencies of a firm and the factors critical for success within its industry that permits the firm to outform competitors. There are two' basic ways to achieve competitive advantage. First competitive advantage may be achieved when a firm pursues a strategy of low costs, which enables it to offer products at lower prices than competitors. Competitive advantage may also be gained by a strategy of differentiating products so that customers perceive unique benefits that justify a premium price. Both the strategies have the same effect: to increase the perceived benefits that accrue to customers.

Cost Leadership

Cost leadership will contribute to competitive advantage to a company. Cost leadership will help to formulate other highly successful strategies. Cost leadership can be obtained by large scale production. Companies should aggressively pursue a position of cost leadership by creating the most efficient scale facilities and maximising the market share so that its cost per unit will become lowest in the industry. Cost leadership depends on large scale economies as well .as substantial market share. Economics of scale alone will not contribute to cost leadership. It should move with market share. Large scale textile mills were established by National Textile Corporation (NTC). Due to poor market share, NTC failed to gain cost leadership.

Some of India's most successful companies are focusing on strategic cost reduction in order to win both in India and abroad. India's reputation in global markets is primarily that of a low-cost source of goods and services. While in some sectors, India has also gained a reputation for quality and reliability, the general expectation is that Indian goods and services can be bought at a discount - even well-regarded Indian software providers compete on price. To succeed internationally, therefore, any Indian company that is thinking about entering a foreign market will need to benchmark its costs against global competition. Companies able to reduce their costs of administration, purchasing and distribution are likely to emerge winners in the price sensitive domestic market as well. Indian companies are reviewing every aspect of their overhead and administrative activities to reduce not just cost, but unnecessary activities as part

of their all-out effort to become globally competitive. Some companies have redeployed redundant staff in higher value activities, but others have combined strategic cost-reduction exercises with voluntary retirement programmes to yield major long-term savings. As import duties fall, successful Indian companies are reaching out to a much wider vendor base to maintain their competitive edge.

Another critical area where successful Indian Companies have scored is distribution. While cots are generally low in India, those related to distribution are relatively high. This is because there are millions of small retail outlets spread over a vast geographical expanse. Efficiently delivering products to remote outlets is a major pre-occupation of India's consumer products companies. Successful Indian companies have learned that the key to distribution, both in India and abroad, is to work with local trading companies who consolidate and deliver multiple product lines to stockists. In competitive markets, strategic cost reduction is extremely important for Indian Companies. Companies that understand how to tackle costs systematically, strategically, and structurally are more likely to survive in these difficult times.

Differentiation

The unique feature of the product that gives better value to consumers than the competitors' products makes product differentiation. Differentiation strategy will contribute to competitive advantage; in turn, it will attempt to increase market share and rate of return on investment. Sometimes companies will charge premium price for the differentiated product. People prefer cell phone in a small size, less weight with added features. A differentiated product having these features will get substantial market.

Another model of competitive advantage 'strategic intent' is defined as, "growing out of ambition and obsession with winning, as the means for achieving competitive advantage". Core competency gurus, C.K. Prahalad and Gary Hamel have expressed that, "few competitive advantages are long lasting. Keeping score of existing advantages is not the same as building new advantages. The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today. An organisation's capacity to improve existing skills and learn new ones is the most defensible competitive advantage of all".

The concept of "Changing the Rules' will help to build competitive advantage. It refers to deviating from the rules of business that are followed by

market leaders. Soft drinks were made available in India in 250 ml bottles before Coke and Pepsi entered. The two MNCs changed the rules. They introduced 300 ml bottles and gained market share in India. Companies should follow new rules or approaches in product differentiation, promotion activities, distribution management and pricing system that are totally different from the existing market leaders, to achieve competitive advantage. In Andhra Pradesh, HLL introduced a new rule of distribution. It approached self-help groups to distribute its products in rural areas. HLL products became popular in rural areas of Andrapradesh. Other companies follow organised dealership network. HLL followed a new rule for distribution that built competitive advantage. In general, companies will introduce new brands to increase their market share. As a new rule, HLL consolidated and reviewed its brands, and concentrated only on 30 brands called mega brands to increase its market share and overall sales. Innovative marketing strategy with innovative approaches to the product, pricing, placing (distribution) and promotion will lead to competitive advantage in the target market.

'Collaboration' also will pave the way for competitive advantage. The collaboration may take place in the form of licensing agreements, joint ventures and strategic partnerships. Having technical collaboration with the leader in the market will build competitive advantage to any business enterprise.

Building competitive advantage is one of the objectives of corporate strategy. To conclude, the techniques to build competitive advantage are, (i) Benchmarking, (ii) Value chain approach, (iii) Utilising core skills, (iv) Global sourcing, (v) Collaboration and (vi) Creating entry barrier to competitors.

FACTORS CONTRIBUTING COMPETITIVE ADVANTAGE (Competitive Advantage Factors)

Factors contributing to competitive advantage to a company are given below:

- ownership of patents, brands, know-how or other intellectual property
- superior product offer, novel product design features, high quality output and/or excellent customer care facilities

- economies of scale, efficient organisation and/or the possession of modern machinery, equipment or premises -
- effective distribution systems, ability to service niche markets, an attractive corporate image, good public relations and customer loyalty to the firm's brands
- abilities to alter the firm's organisation structure quickly arid to introduce new models at short notice
- easy access to financial capital or high levels of financial reserves
- well-qualified and highly motivated employees
- ownership of raw materials or other input suppliers and of distribution outlets
- superior R&D facilities
- access to low-cost labour.

(Source: Roger Bennett, International Business, Pearson Education Pvt. Ltd., New Delhi).

CORE COMPETENCIES

A firm's enduring competency that cannot be easily imitated by the competitors.

- A firm must possess specific durable and productive competitive advantage. It depends on unique strength of the firm. A firm cannot compete in long run without unique strength. Competitive advange factor of one firm can be achieved by its competitor in long run. So a specific core strength is to be developed and strengthened that cannot be imitated by competitors in short run and long run and to compete in the business forever.
- Core competency refers an enduring competency that cannot be easily imitated. It contributes to generate newer and stronger competitive advantages and strategies that will help to compete in the market. MNCs should possess core competence to do business in the ever competitive global market and to build strength to compete.

- Competitive advantage can be achieved by building core competencies. C.K.Prahalad and Gary Hamel have expressed that it is not a particular product that confers MNCs the dominant position. Behind the product, there is the core competence, a unique strength in technology/process/expertise. The global market leadership is determined by the strength of core competence of the competing firms and not on their products or brands.
- Core competence is a fundamental, unique and inimitable strength of a firm. It helps to (1) produce variety of products and enter various markets (2) increase buyer value (3) to preserve unique value and image of a firm in the world market. A core competence is largely a technological competence. New businessess and products are largely the result of technology.

Competitive advantage and core competence

- A competitive advantage is not a core competence. Core competence provides a lasting competitive superiority to a company. Core competency is a sure success formula. Competitive advantage accrues from the functional strength of a firm. Core competence accrues from core strength like excellence in technology/process. Competitive advantage competitive strength in a given product.Core competence variety of businesses and products.
- Competitive advantage is not unique. Core competence is unique and fundamental strength to a firm.
- Examples of core competence
- Sony has a core competence in miniaturisation, Philips – Optical media expertise, Honda – engines, Dopont –chemical technology, Canon – Optics, imaging and microprocessor controls, JVC – video recording and videotape technology
- Gillette has two identifiable resources. They are (1) the technology itself and (2) the capability for developing and using new technological resources. These formed Gillette"s core competency of product development. A distinctive competency is a core competency that is superior to those of the competitors. The Gillette's ability to develop new

products was superior to any of its competitors. It's product development is a distinctive competency.

- Core competency is a key strength of a firm. It is also called core capability. Core competency should meet three tests:
- 1. Customer value – It must make disproportionate contribution to customer perceived value. 2. Competitor Unique – It must be unique and superior to competitors capabilities and 3.Extendibility
- It must be used to develop new products and services and and enter new markets.

FORCES INFLUENCING COMPETITION

Healthy competition is advantageous to both consumer and industry. In a competitive environment there are large number of sellers and buyers and market becomes perfect market. Competition paves the way to formulate appropriate strategies to withstand in the competitive market and to increase market share at least. The strategies may be related to price, product, place and promotion. Tomorrow's competition will be more than today's. So it becomes necessary to study the forces or factors influencing competition in the industrial environment. In the globalised environment, not only market is widely expanded but also competitive. Warren J. Keegan has stated that, "in .any industry, competition works to drive down the rate of return on invested capital towards the rate that would be earned in the economist's perfectly competitive industry. Rates of return that are greater than this so-called competitive rate will stimulate an inflow of capital either from new entrants or from existing competitors making additional investment. Rate of return below this competitive rate will result in withdrawal from the industry and decline in the levels of activity and competition."

Michael E. Porter of Harvard University, the renowned tlieorist of competitive strategy, has identified five important forces influencing competition in an industry. The five forces are:

1. Threat of New Entrants

2. Threat of Substitute Products

3. Bargaining Power of Buyers

4. Bargaining Power of Suppliers

5. Rivalry among Competitors.

Threat of New Entrants

Michael E. Porter in his book/Competitors Strategy' has highlighted that, "new entrants to an industry bring new capacity, a desire to gain market share and position, and very often new approaches to serving customer needs. The decision to become a new entrant in an industry is often accompanied by a major commitment of resources. New players mean that prices will be pushed downward, and margins squeezed, resulting in reduced industry profitability". He has further stated that, "there are eight major sources of barriers to entry, the presence or absence of which determines the extent of the threat of new industry entrants".

Entry barriers are given below:

1. Economies of Scale
2. Product Differentiation
3. Capital Requirements
4. Switching Costs
5. Distribution Channels
6. Government Policy
7. Cost Advantages Independent of Scales
8. Competitor Response

Economies of Scale

Large scale production reduces cost of production per unit. Productivity is ensured at maximum level in large scale production. Large scale enterprises are able to reduce their prices and expand their functional base, that threat the small scale enterprises to enter into the market. The soft drinks Coke and Pepsi are manufactured in large scale in India that exists as a potential threat to the small regional brands and entry barrier to small scale soft drinks producers. V.S. Ramasamy and S. Namakumari have expressed that, "new entrants are always a

powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players". New entrants may bring new technology for production and their entire marketing function will be a forward looking one. They will come with new products and cost-effective packing designs. They may try in better way to ascertain the desires of buyers and design new methods to fulfil their desires. They will slowly capture the market share of existing companies. Anchor, is a new entrant in the toothpaste market. Its aggressive marketing strategy slowly captures the market share of the giants Colgate Palmolive and Hindustan Lever. Hence Anchor becomes a potential competitor as well as threat to Colgate Palmolive and Hindustan Lever, Limited and the extent of competition is increased in the toothpaste market. Companies enjoying economies of scale can only enter in the ever growing competitive market, Economics of scale should be ensured throughout the life of business.

Product Differentiation

Warren J. Keegan has defined product differentiation as, "the extent of a product's perceived uniqueness". Moov entered in the pain palm market with product differentiation and became a potential threat to one. hundred years old Amuruthanjan, Moov is given in a squeezing lube with a different colour (white). Product coming in the market with differentiation will add competition in an industry. Product attributes, brand image and customer loyalty contribute to product differentiation. LG Electronics air conditioners are distinct product in the air conditioner market. The differentiation has increased market share of LG and LG Electronics added competition in the air conditioner market.

Capital Requirements

Capital is a basic requisite to any business enterprise. Today's competitive environment, business enterprises should operate in a large scale. It requires enormous capital for financing Research and Development, advertising, inventories and customer-credits. Companies coming with adequate capital to finance all their requirements will add competition in their respective industries. Capital requirement is an entry barrier to small scale enterprises in the globalised and competitive environment. Entry of multinationals in India added

competition. MNCs provide adequate capital and finance their R&D efforts and do their business with innovative technologies.

Switching Costs

Warren J. Keegan has expressed that 'Switching Costs" is a barrier to the buyer of changing suppliers and products. These might include retraining, ancillary equipment costs, the cost of evaluating a new source, and so on. The perceived cost to customers of switching to a new competitor's product may present an insurmountable obstacle preventing industry new comers from achieving success". Switching costs refer not only costs involved for changing suppliers and products but also for bringing updated technology in the place of outdated technology. Costs involved for diversification are also added under switching costs. Companies able to bear switching costs will add competition. For other companies, switching cost is a barrier to them to enter the market.

Distribution Channels

New enterprises coming with widely distributed network for distribution of goods will add competition and be a potential threat to the existing enterprises. It requires manpower and money power. Small companies do not afford it. So establishing distribution network and channel becomes entry barrier to small companies. Of late, companies try to reduce their distribution cost to become competitive in terms of price. Companies reducing distribution costs add competition in the market.

Government Policy

Companies fulfilling the conditions of policies of the Government will add competition in the market, others will *stay* out and it will be entry barrier to them.

Cost Advantages Independent of Scale

Some enterprises will have easy access to raw materials, favourable locations and gel subsidies from the Government. These facilities may not be available to other enterprises and non-availability of such facilities will become entry' barrier. Some cement companies will have their own mines. Some '"mineral water companies will have access to pure drinking water. Such facilities will help them to gain competitive advantage.

Competitor Response

Competitors' response is also taken into account by new entrant while entering into the existing market. If the competitors welcome the new entrant, it will encourage him. If the competitors fed unpleasant, it may be a barrier to new entrant entering the market, Competition will increase when existing players welcome new players in (lie market.

Threat of Substitute Products

Threat of substitute products is an important factor influencing competition in an industry. Consumers in the end of the market arc price sensitive. They can not afford to buy costly products. Substitute producers utilise the price consciousness of the people living with low standard of living and bring out substitute and sub-standard products. These products will compete with main and standard products in the market and competition will increase. Buyers switch over to substitute products, because price of the standard product is very high. The sub-standard and substitute drugs become potential threat to leading pharmaceutical companies. Substitute products are available in a large scale in fast moving consumer goods sector adding competition in the market. Michael E. Porter has slated that, 'firms in many industries face competition from those marketing close or distant substitutes. Substitute products that deserve the most attention are those that: (i) arc subject lo trends improving their price-performance trade off with the industry's product, or (ii) are produced by industries earning high profits'". Keegan has expressed that, "availability of substitute products places limits on. the prices market leaders can charge in an industry; high prices may induce buyers to switch to the substitutes".

Bargaining Power of Buyers

Buyers bargain in the market to get the best. The aim of customers, particularly industrial customers is to pay lowest possible price to purchase the products they require. Companies should come forward to reduce their profitability to serve the best interest of the buyers. If this situation prevails, competition will increase in the market. Companies ready to cut their prices followed by strong bargaining power of buyers to **add** competition further. Michael E. Porter has expressed that, "buyers compete with the industry by

forcing down prices, bargaining for higher quality and more services and playing competitors against each other all at the expenses of industry profitability".

Buyers will exercise their bargaining power:

1) when the suppliers' company depends upon buyers' business for survival,

2) when the suppliers' products are standardised and undifferentiated,

3) when the supplier industry's products or services constitute a major portion of the buyer firms' costs.

Willingness and ability to achieve backward 'integration also influence bargaining power of buyers.

Bargaining Power of Suppliers

Koogam has expressed that, "supplier power over industry firms is the "flip side of the coin" to buyer power. If suppliers have enough leverage over industry firms, they can raise prices high enough to Significantly influence the profitability of their organisational customers". Bargaining power of suppliers also influences competition in the market. Francis Cherunilam has pointed out the important determinants that influence bargaining power of suppliers. The determinants are:

i) extent of concentration and domination in the supplier industry,

ii) importance of the product to the buyer,

iii) importance of the buyer to the supplier,

iv) extent of substitutability of the product,

v) switching costs,

vi) extent of standardization of the product, and

vii) potential for forward integration by suppliers.

Rivalry among Competitors

Rivalry among competitors will force competition further in the market. V.S. Ramasamy and S. Namakumari have expressed that, "the extent of

rivalry among competitors, influence prices as well as the costs of competing in the industry, in production facilities product development, advertising, sales force etc". Rivalry among two wheeler producers, FMCG producers, soft drink producers etc has brought out health competition in the market and new products and innovated products are introduced day by at competitive prices. Rivalry among banks brings down the interest rate for loans.

Rivalry among firms is defined by Warren J. Keegan, as, all actions taken by firms in the industry to improve their positions and gain advantage over each other". The actions are, price, competition, advertising battles, product positioning, product differentiation and the like. The ability to compete with others will improve profitability of the company and strengthen its stability in the industry. The extent of rivalry of a company depends upon its inherent strength in terms of competitive production and marketing strategies. Consumers know well the extent of rivalry between Colgate Pal motive and HLL in. tooth paste market. Similarly between SmithKline Beecham and Consumer Health and other health drink producers in the health drink market . rivalry among firms is inherent in nature in marketing of goods and services in the ever competitive market.

ENVIRONMENTAL ANALYSIS

J. David Hunger and Thomas L. Wheelen have stated that environmental analysis is, "the monitoring, evaluating and dissemination of information from the external and internal environments to key people within the corporation".

The external environment consists of variables (opportunities and threats) that are outside the organization and not typically within the short – run control of top management.

The internal environment consists of variables (strengths and weaknesses) that are within the organization itself and are not usually within the short-run control of top management.

Business enterprises should analyse external environment to assess their possible opportunities and threats and internal environment to assess their strengths and weaknesses.

The external environmental factors are listed below:

i) Economic Environment: It regulates the exchange of materials, money, energy and information.

ii) Technology Environment: It generates problem solving inventions.

iii) Political and Legal Environment: It allocates power and provides constraining and protecting laws and regulations.

iv) Socio-cultural Environment: It regulates the values and customs of society.

Internal environment is called task environment. It includes government, local community, suppliers, competitors, customers, creditors, employees, labour unions, special interest groups and trade associations.

Advantages of Environment Analysis

Advantages of environmental analysis are given below:

i) It helps to identify the important external and internal factors contributing to success of a business.

ii) It helps to assess the growth opportunities of a business enterprise.

iii) It helps to identify the extent of threat in the prevailing market conditions to a business,

iv) It helps to judge strengths and weaknesses of a business in the prevailing market conditions, and

v) It helps to know, how, when and where to start a business enterprise, and

vi) It helps to understand the impact of external and internal environment factors on business enterprise.

Important environmental factors are given below :

Economic	Technological	Political – Legal	Socio Cultural
GDP trends Interest rates Money supply Inflation rates Unemployment levels Wage/price controls Devaluation / revaluation Energy availability and cost Disposable and discretionary income	Total government spending for R&D Total industry spending for R&D Focus of technological efforts Patent protection New products New developments in technology transfer from lab to marketplace Productivity improvements through automation	Antitrust regulations Environmental protection laws Tax laws Special incentives Foreign trade regulations Attitudes toward foreign companies Laws on hiring and promotion Stability of government	Lifestyle changes Career expectations Consumer activism Rate of family formation Growth rate of population Age distribution of population Regional shifts in population Life expectancies birth rates

Source : Essentials of Strategic Management – Hunger and Wheelen, Prentice Hall of India (P) Ltd., New Delhi, P.34.

SIGNIFICANCE OF INTERNATIONAL MARKETING ENVIRONMENT

What a business is, is partly due to its environment. In other words every business is a product of its environment. The influence of environment on business is significantly significant. Take the case of Indian business undertakings. Until 1991, they enjoyed a protective environment. They did not evince interest in exports, in building competitive strength, in Research and Development and the like. Now as economic liberalisation is taking place, businesses address issues relating to 'total quality management', 'strategic

alliance' to meet competition, and so on. Thus as environment changes, businesses change their perspectives, strategies, etc. There is no choice, but compulsion.

Environment influences international marketing in four ways - it provides opportunities to businesses, it poses threats, it strengthens and also it weakens businesses. Hence the significance of business environment.

Opportunities are provided by environment. When the culture of a society needs rites, rituals and festivals, industries catering to these needs flourish. When home entertainment culture spreads, businesses in home-entertainment, viz, television, tape record players, etc make good advances. When monetary policy is relaxed more capital at lesser cost is made available. When laws restricting foreign investment are relaxed, businesses can raise easy capital abroad, as some Indian businesses are doing now through issue of global depository receipts, Euro bonds, etc. Thus it is environment that provides opportunities. Opportunities must be seized timely and regularly.

Threats are also posed by environment. When finance related laws are relaxed allowing businesses to raise capital freely, local banking businesses find no takers for credit. When foreign companies set up businesses, local firms find the going difficult. The entry of foreign brands of soft drinks, TVs, etc., is a threat to local brands. The entry of Sony and Panasonic in India in 1995, is a threat to the local brands like BPL, Videocon, etc.

Environment also strengthens businesses. An environment that nurtures the culture of efficiency, competitiveness, innovation and growth makes businesses strong. Withdrawal of agri-subsidies in rich countries, strengthens the agro-export industries in LDCs.

And, environment can also weaken businesses. A policy of the government to protect businesses, in effect makes them weak. Withdrawal of fertilizer-subsidy has weakened both the fertiliser and the agro-industries as they were earlier used to the comforts of protection.

Components of international marketing environmental dimensions ***are*** listed below:

International Business Environmental Factors

S.No.	*Factors*	*Components*
1.	Political Environment	Political system political institutions political ideologies of parties political stability political culture etc.
2.	Government Environment	System of Government distribution of power between national and local Government culture of civil servants Government policy on businesses etc.
3.	Legal Environment	Business related laws governing competition consumer protection contractual obligations regulation of foreign participation respect for judiciary efficiency of the same etc.
4.	Economic Environment	Size of the economy composition of the economy economic health economic policies - fiscal monetary and entrepreneurial foreign capital etc.
5.	Technological Environment	Technological orientations. Research & Development Environment Technology import and absorption technological obsolescence etc.
6.	Ecological Environment	Natural resources and reserves need for protection of Environment fragile zones pollution control etc.
7.	Geographical Environment	The geo-peculiarities of a region like the terrain vegetation cover location altitude rainfall climate etc.
8.	Cultural Environment	Cultural life of people rites rituals festivals heritage invasion of alien culture business culture roles etc.
9.	Social Environment	Social practices social classifications like caste religion and community social institutions like family marriage etc.

10.	Demographic Environment	Size of population composition of population family size and cycle language educational attainments entrepreneurial talents etc.

A brief description of different environmental dimensions, seen above, is below:

Political Environment

Political dimensions consist of the political system (ie., democracy, autocracy, etc), the political institutions (the national and regional parties, their structure and their style of functioning, etc), the political ideologies of the parties (ie., commitment to socialism, capitalism, large industries, domestic industries vis-a-vis multinationals, etc) political stability (continuance of same party in power, continuance of same policies pursued by the party in power previously by the new party in power, etc), strength of opposition and political culture of parties.

Political dimension is a basic reason for the delay in privatising insurance sector in India. Even in the liberalised environment Communist Parties do not accept permitting International enterprises to do business in India.

Needless to say, political dimension influences the legal and governmental environmental factors, which in turn affect businesses. It is the political ideologies of Smt. Indira Gandhi that resulted in vast role for public sector, bank nationalisation, etc. Political stability and opposition unity affect business environment. Investment policies of businesses, etc depend on political stability. With political stability foreign capital can be wooed. Politics-business nexus is always there throughout the world, through election funding, etc.

Governmental Environment

In theory, at least, mere is difference between Government and ruling political party. Hence a separate discussion of Governmental environment is made.

The factors include the system of government (parliament, presidential, etc), power distribution between Union Government and State Governments and the local bodies, the culture of the civil servants (their ability, straightforwardness, speed of action, etc), Governmental institutions like the

Parliament, Council of Ministers, Ministries, etc and their relative role and efficacy, the Governmental Policy on Business (laissez-faire policy or control), etc.

Stable governmental policies, efficiency of and timely action by the civil servants, greater understanding among different ministries, etc have a definite influence on export business. A responsive government is a boon to businesses and vice-versa.

Economic environment influences export business and investment opportunities. India and Mauritius have entered into Double Taxation Avoidance Agreement (DTAA). As per the agreement, a resident company of Mauritius investing in India will pay income tax and other taxes as per the taxation rules of the Mauritius. Many global enterprises invest in India though Mauritius because tax rate in Mauritius is less than the tax rate in India. Tax policy of Mauritius Government influences investment in India.

Importing countries may levy anti-dumping duties on a specific commodity, if the import of such commodity damages domestic industry producing the same commodity. Anti-dumping duty is levied to reduce cheaper imports. Removing quantitative restrictions, reducing/increasing import duties etc., influence export business. The prosperity of the export business is based on the Export-Import Policy of the Government. Export incentives and concessions provided by the Government influence export business. The European Union provides enormous incentives to the dairy industry. So their share in global dairy market is on increasing trend.

Unilateral, bilateral and multilateral agreements will influence export business. The GSP (Globalised System of Preferences), and GSTP (Global System of Trade Preferences) concessions influence export business. Under GSP importing countries give concessions in import duty for the products imported from the listed countries in GSP. It is unilateral agreement. Under this, duty concession is given by the developed countries to developing countries. Under GSTP countries entering into agreement should exchange duty concessions mutually. It is bilateral agreement.

Investment and exchange rate policies of the Government influence export opportunities of a business. Currency depreciation makes exports competitive and imports costly. South Korean companies are permitted to invest

,in automobile sector in India that will pave the/way to increase automobile exports in India in the near future.

Legal Environment

The legal system (the Supreme Court, High Court, District and Taluk Courts, Ombudsman Organisations, Labour Courts and Tribunals, Consumer Courts and Tribunals), the legislative frameworks (the different economic and commercial legislations, the provisions and interpretations), the speed of disposal of caseo, the independence of the judicial system, etc in India and emerging markets constitute the legal environmental factors for export business.

Legal procedures relating to import of goods, packaging, export price regulations (minimum export price), anti-dumping and international advertising **are** discussed under legal environment of export business.

A clear-cut legislative framework reduces the scope for diverse interpretations and needless dragging of cases. An efficient judiciary disposes of pending cases sooner than later. Too much of business legislations instead of creating ground for orderly relations among businesses, curtails freedom of enterprise. Hence the influence of legal system on businesses.

Legal environment influences export business greatly. The WTO insists, the member countries to adopt labour standard and environment standard. The United States put ban on the import of products made by child labour. The US insists to avoid child labour. We have to give provision in our Labour Law to avoid child labour in Indian industries whether small scale or large scale. Environmental aspects and Law also *-ye* seriously considered in export business. The Government of India has stated that the industrial units of foreign countries getting permission to establish their industries in Special Economic Zones (SEZ) should follow Indian Labour Law. Foreign companies may hesitate to establish their units in SEZ. Because they prefer hire and fire labour policy and not the protected one like Indian Labour Policy. This may reduce exports of SEZs. Hence labour policy influences export business.

Legal procedures\ f6r payments in the importing countries, and dispute-settlement mechanism in the importing countries also have a bearing on international business.

Economic Environment

The economic dimensional factors are indeed numerous and more influenced. The gross national product and its composition and trend, the gross national savings and investment, the size and scope of public sector, the economic policy of the land consisting of control on big businesses, tax policy, policy in fiscal deficit, interest rate policy, policy on foreign finance for development, monetary policy, trade policy, reservation of industries for small businesses, incentives for selected industries/regions etc influence export businesses vastly.

The economic system, nature of the economy, composition of the economy, functioning of the economy, health of the economy, economic policy, strategy, programmes and procedures adopted, economic controls and regulations, economic trends, economic problems and prospects influence businesses in the international market.

Economic factors of a country will influence export business. The economic factors such as, standard of living of the people, progress in economic development, rate of foreign exchange, trade barriers, trade blocks, bilateral and multilateral agreements with multinational agencies and other developed and developing countries influence international business of a country.

In a capitalistic society private enterprises develop. In an industrial economy the economic health is better than in an agrarian economy. The structural pattern and interface among various sectors of the economy mean much for individual businesses. Structural rigidities are being reduced through liberalisation giving increased scope for innovative businesses in the global market.

Technological Environment

Technology is the invisible input in domestic and export business Science and Technology make lot of differences in economic and social life Industrial and agrarian development in the present era are technology driven Technology is all pervasive. Small and big industries, agricultural and secondary sectors, service and infrastructural sectors, rural and urban sectors all need technology.

Availability **of** appropriate technology, technology development, technology absorption and technology upgradation influence export businesses very much. Import of technology and development of indegenous technology are

the two eyes for industrial and business development. Businesses must manage technology, instead of being dictated by technology. That is technology should be used for human and business development together. Modernisation of businesses through planned obsolescence is one aspect of technology management. Development hinges on technology. Hence the relevance of technological environment. Technology forecasting is needed so that businesses can plan for future in a firm way. If in a country technology is not given due importance, its businesses will stand no ground in the competitive world.

Technology development in food processing industry will increase processed foods exports. Software technology contributes to increase in software exports in India. Technology will create alternatives for the scarced or limited resources. Technology is a weapon to fight in the global market and it is a stepping stone to maximise export business in the global market.

Ecological Environment

Businesses including international business are influenced by the natural resources available in the regions and balanced exploitation of the natural resources. Lopsided or over exploitation of one or other resources, beyond the balancing or regeneration capacity of the nature, will spell doom for the businesses. Large dams via-a-vis small dams, bio-fertilisers via-a-vis chemical fertilizers, conventional energy vis-a-vis non-conventional energy and the like issues are nothing but intimately woven with the ecology. Unless fuel efficiency is ensured right from the village homes using firewoods to big industries using fossil fuels, the world would suffer serious ecological hazard with alround pollutions. Businesses, have to, therefore, be concerned with the ecology and natural environment. Now ecological audit is made part of project appraisal. Stem ecological laws are in vogue nowadays.

Geographical Environment

International businesses are affected by the kind of terrain, the soil and sub-soil characters of the area where these are functioning, the climatic factors, nearness to seaports, the rainfall, the wind level, etc. In fact the type of business that can be developed in a place is influenced by the geographical environment. In a rocky region rose cannot be grown, but granite industry can be developed. In a hilly region rice cannot be grown but coffee or tea or other plantation crop can be.

Brazil is a leader in the world coffee market. India is a leader in the world tea market and spices market and cashew market. New Zealand is a market leader in the world dairy products market. Malaysia is a leader in world rubba and palmolein oil market. The Geographical environment in the concerned country make them to become leaders in the specific product in the world market. Hence geographical environment influences export business. Cold countries will import leather garments. It is the opportunity to the other countries to export leather garments to the cold countries.

Cotton industry is concentrated in Bombay region, which is due to the hinterland soil-type and climate suited for cotton cultivation and spinning, Bombay is the business capital of India. This is again due to its geographical features. A natural sea-port, good rainfall, the rich soil, etc make Bombay a unique land of businesses.

Cultural Environment

Warren J. Keegan, in his book 'Global Marketing Management' has expressed the concept culture as "the ways of living built up by a group of human beings that are transmitted from one generation to another, culture includes both conscious and unconscious values, ideas, attitudes and symbols that shape human behaviour and that are transmitted from one generation to the next". Cultural factors are important influences of the export marketing of goods and services. Religion, family set-up, education and language are important cultural factors influencing export marketing.

Businesses are social sub-systems. Businesses exist to cater to people's needs. People's needs depend on their culture. Rites, rituals, values, beliefs, norms, symbols, festivals, leisure activities, works preferred, etc are all cultural or culture-dependent. Culture changes, but basic characters remain the same as ever. Culture varies from region to region and society to society. Depending on the cultural heritage of the people, people's economic, social, educational, work and leisure needs differ. Businesses try to meet these needs of different people, as culture changes, the businesses have to change themselves. Now-a-days cultural change is taking place on a large scale due to exposure to alien cultures through media or movement. This has enormous business implications in the export market.

'Ready to use' products are popular in the world market. Exporters should supply ready to use food products to maximise their export business. In some countries consumer may prefer neatly packed products in small quantities, rather than in bulk form. Exporters have to observe colour preference of the buyers in textiles and other products in the world market and important festivals in the emerging markets to capitalise the cultural environment and to maximising export business. Changes are witnessed in Indian cultural environment. Industrial and consumer products of western world are marketed in India and this market goes on increasing trend.

Social Environment

Social environment refers to the social classification of people, upper, middle and lower classes on economic basis, caste based classification and community based classification, social institutions like family, marriage, societal values like honesty and cleanliness in public life, various tolerances, etc.

Again, as businesses serve and get served by the society, social environment affects businesses. In family life the purchase decisions are generally made by the elders who consider value for money as the most important criterion of buying decision. Businesses have to keep this in mind. At the same time, as social changes are common, youngsters have been now taking purchase and investment decisions. Now businesses' articulations have to be different.

The middle class is the burgeoning one in most countries. Two bed room houses/flats, TVs, VCRs, Washing Machines, Electronic Typewriters, etc are the status symbol of this social group. Indian and, multinational companies mostly cater to this social group.

Demographic Environment

The size of population, age, education, linguistic and religious composition of population, trend in these factors, entrepreneurial aspiration of the people, educational and skill levels of population, political ideologies and awareness of the people, values and attitude of the people, etc constitute to demographic environment.

Growing population has both positive and negative impacts on the nation and its businesses. Baby boom in a land would mean more hay days for baby food and health businesses. Similarly, burgeoning old age people in a land will lead to more hay days for health-care industry, home for the elders like crèche for children and so on. If people are entrepreneurial more innovative businesses will come up. Job providers will increase and unemployment will decrease or vanish. Small family norms are nowadays stressed. In China 'one-family-one-child' norm is enforced. This, it is reported, leads to much more "pampered childhood". It may have social repercussions later. Business opportunities and challenges, in domestic and international markets are, thus influenced by the demographic factors and the trend in them.

Largest educated population, largest uneducated (illiteracy) population, and largest middle income group population in the world are in India. It attracts multinational companies to enter into Indian consumer goods market. The Hindustan Lever, Nestle, Smithklime Beecham etc., have exploited consumer goods market in India. Hence demographic environment influences international business. Computer literacy is on increasing in India. It increases number of computer training institutes and India becomes leader in the world software market. Growth of computer literacy creates opportunities to Indian Information Technology companies to penetrate in the world market.

Questions

1) Explain strategic planning process
2) What is competitive advantage? What are competitive advantage factors?
3) What is core competence? Explain its importance in international business.
4) What is environmental scanning? Explain the factors involved in it?

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UNIT – V

ORGANISATIONAL STRATEGIES OF MNCs, STRATEGIC ADAPTATION, BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

Objective of this lesson is to help learners to understand and comprehend.

i) The various types of organizational structures of MNCs

ii) Strategic adaptation

iii) Business Ethics and Social Responsibilities of Business

ORGANISATIONAL STRUCTURE OF MNCs

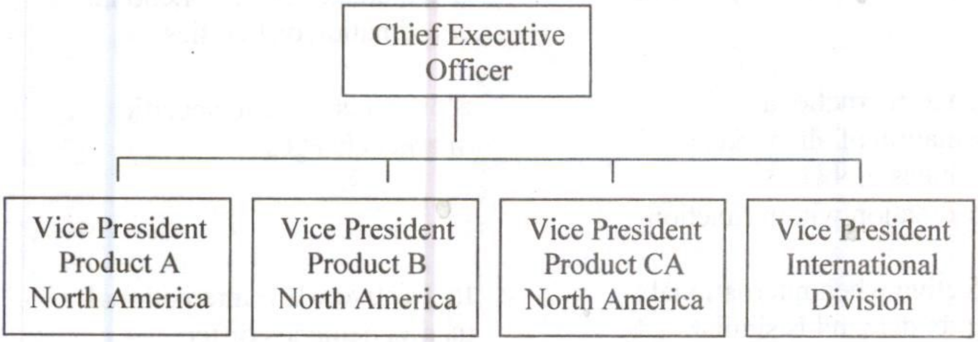
Organizational structures of MNCs are based on their products, customers and operations in the world market. Organization structure will differ from one MNC to another. Organizational structure of MNCs may be productwise, functionwise, regionwise and customerwise in the global market.

Line organization, line and staff organization, functional organization and committee organization are examples of organizational structures followed by business enterprise doing business in domestic market.

The following are the organizational structures followed by MNCs doing business in the world market.

1) International Division Structure
2) Global Functional Structure
3) Geographic Area Structure
4) Global Product Structure
5) Global Divisional Structure
6) Global Customer Structure
7) Global Matrix Structure
8) Mixed Organisational Structure

1. International Division Structure



Strengths

Strong Professional Identity Products

Focused Group on International Markets, Customers, Competitors adaptations/modifications

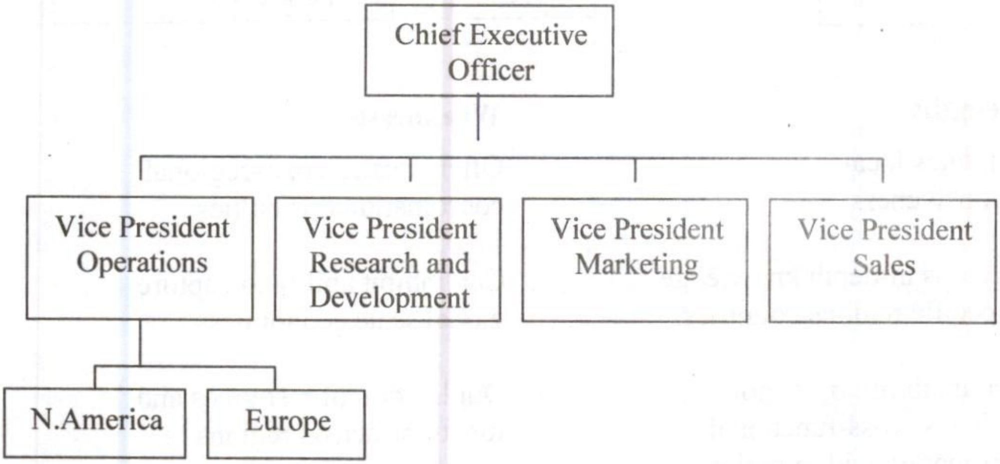
Access to CEO via Reporting relationship

Weaknesses

Dependence on other Divisions for

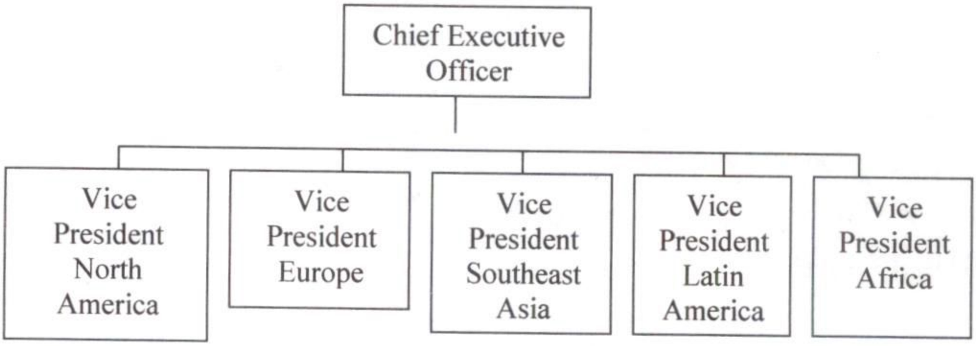
Low Priority of other Divisions for International

2. Global Functional Structure



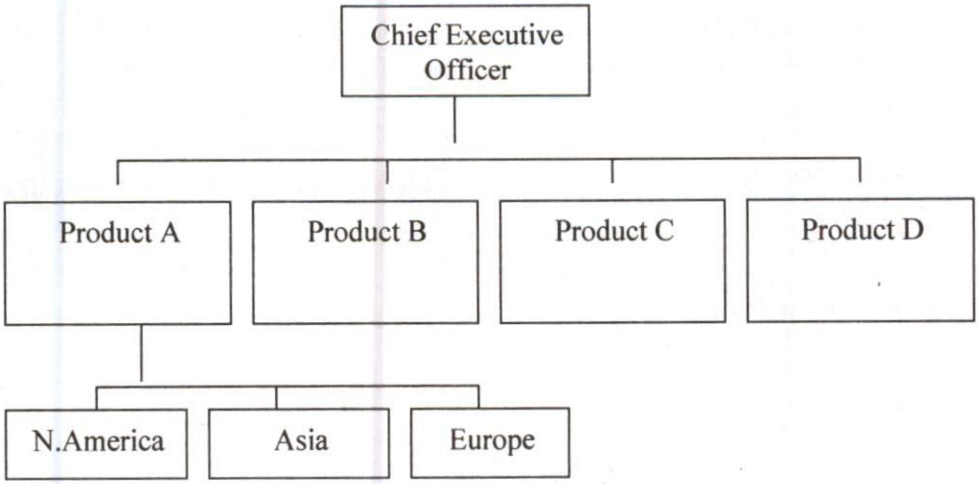
Strengths	Weaknesses
Lower HQ/Subsidiary conflicts	Often creates cross-functional coordination difficulties
Higher international orientation of all markets facilitates global coordination within function	Slower response to specific market changes
Effective when international market demand is similar	Ineffective when international market demands differ

3. **Global Area Structure**



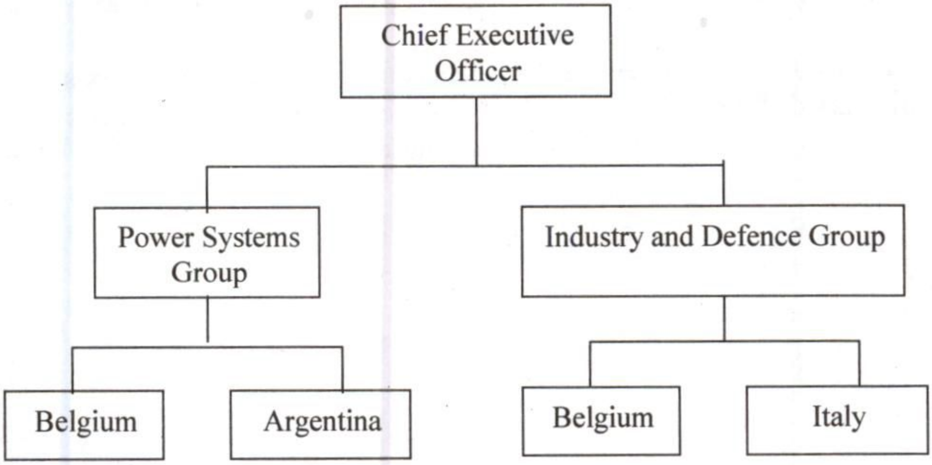
Strengths	Weaknesses
Facilitates local responsiveness	Often creates cross-regional coordination difficulties
Develops in-depth knowledge of specific regions/countries	Can inhibit ability to capture global scale economies
Accountability by region facilitates cross-functional coordination within regions	Duplication of resources and functions across regions

4. Chief Product Structure



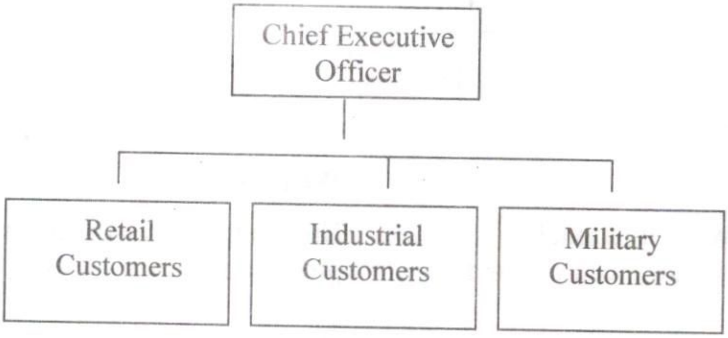
Strengths	Weaknesses
Facilitates cross-functional coordination for a given product	Duplication of resources by product divisions
Facilitates ability to capture global scale Economies by product	Can inhibit cross-product coordination

5. Global Division Structure



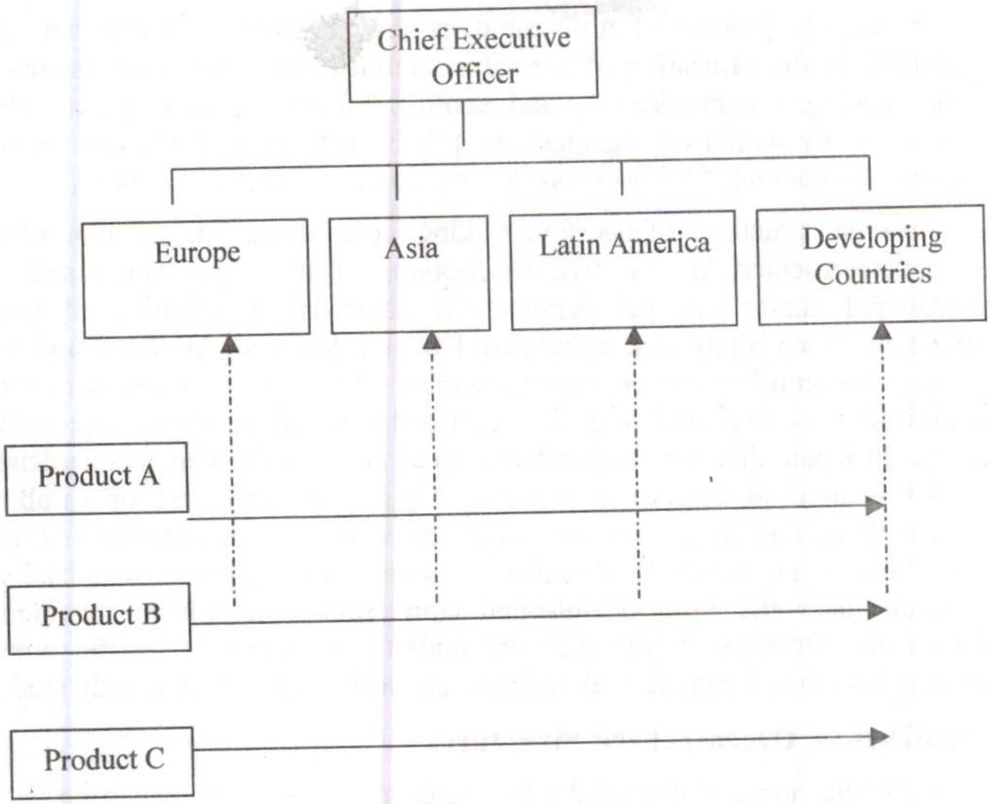
Strengths	Weaknesses
Reduces resource duplication facilitates cross-product coordination	Can inhibit cross-divisional coordination
Facilitates cross-regional coordination	Can obscure global scale economies

6. Global Customer Structure



Strengths	Weaknesses
Facilitates Coordination across functions and regions by Customer	Less effective if differentiation between customers diminishes
Effective if customer classifications are significantly different	Less effective if differences exist with a customer category across countries.

7. Global Matrix Structure



Strengths	**Weaknesses**
Increased information flow throughout organisation	Increased conflict potential
Balanced Orientation	Ambiguity of authority

(Source: Structure 1 to 7, The International Business Environment, Text and Cases – Sundaram and Black, Prentice Hall of India.)

Formal vs. Informal Structures

During the process of differentiation and integration, MNEs can vary substantially in the utilization of formal or defined structures and systems in decision making, communication, and control. Formal systems specify clear lines of authority within an organization. MNEs with strong formalization rely on the chain of command for decision making, communication, or control.

Informal structures of decision making, communication, and control are often not represented in objective descriptions of the organization such as organizational charts and yet pervade the day-today functioning of many organizations. One study that compared US and Japanese MNEs found that Japanese relied much more on informalization. Much of the decision making, communication, and control was accomplished through informal, face-to-face meetings. In Japan, this process is referred to as *nemawashi.* This is a gardening term that is used to describe a process of transplanting a tree or shrub by incrementally cutting *the* plant's roots over time so that by the time the final root is cut, there is no shock to the plant's system. In Japanese organizations, *nemawashi takes* the form of informal conversations in which incremental decisions and attempts at influence are undertaken such that by the time a meeting is held to make the formal decision, the decision is in fact already made.

Centralized vs. Decentralized Structures

Centralization and decentralization refer to the extent to which decisions are made at the top of the organization or pushed down into lower levels. For instance, European MNEs tend to be decentralized and allow units in different countries to make decisions in accordance with the local conditions. Often this enables them to better adapt to host government demands or shifting consumer preferences.

Japanese MNEs, on the other hand, exhibit a stronger degree of centralization and tend to delegate decisions far less than either European or American MNEs. Most Japanese MNEs operate like centralized hubs into which information flows, and from which decisions are announced. In fact, recent complaints by host nationals in local subsidiaries about the "bamboo ceiling"—or the exclusion of host nationals from the strategic decision-making process by Japanese expatriates and headquarters executives—may stem from the centralized orientation of many Japanese MNEs.

INTERNATIONAL DIVISION STRUCTURE

This structure is suitable to the newly entered enterprises in the world market. Newly entered enterprises will have few products for international markets little understanding of customers in the international market and trade policies of the various countries. It is common to the newly entered MNCs to establish on international division, which is responsible for all functional activities relating to international markets. All functions such as marketing, finance, sales are managed by a particular international division. Specifically, production activities are not part of the international division. Products are produced within the normal 'domestic' organizational structure and then modified or simply turned over 'as is' to the international division.

Merits

This type of structure is suitable to the newly entered MNCs in the international market. They have limited experience about the world market and its environment.

The focus on international operations within the division will create a strong professional identity among its members. Specialization and training about the requirements of world market are ensured. Specific attention is given to international markets, competitions and business environment by divisions. It facilitates establishing strategies to achieve corporate objectives. The officer responsible for a division reports to the Chief Executive Officer (CEO). International issues brought in by divisions are considered immediately and proper steps are taken immediately to solve the issues.

Demerits

Dependence an other divisions for products and support. International sales of a particular product are often only a small percentage of the product's overall sales, and low priority is given to international sales. Similarly other parts of the firm than supply products and services to the international divisions may be unwilling to make modifications that would facilitate greater international sales.

GLOBAL FUNCTIONAL STRUCTURE

This type of organizational structure is suitable to the MNCs producing similar products and using similar technologies in the world market. The global functional structure against activities of various functions – accounting, finance, operations, marketing etc. Each functional department has to fulfil responsibilities worldwide.

Merits

This structure reduces conflicts between headquarters and subsidiary because activities throughout the world are integrated into their respective functional areas. The functional heads are incharge of global operations and they have global responsibility. This structure facilitates global coordination and control. Anant K. Sundaram and J. Stewart Black have stated that the weaknesses of this structure are most prevalent when the firm has a wide variety of products and the products will have different environmental demands. This weakness is noticed when different functional areas experience different demands by geographical area. Trade policies and accounting policies will not be uniform in different markets of the world. It is create coordination difficulties among the functions, similarly other business environmental factors may not be uniform and they may create hurdles in functional coordination.

GEOGRAPHICAL AREA STRUCTURE

The leading multinational corporations will create organizational structure themselves around various geographical areas or regions in the world market. The Chief Executive Officer is total responsible for all functional activities of the area or region of the world market.

Merits

It helps to understand about the market, customers, government policies related to foreign trade and investment and competitors within the given geographical area or region in the world market. The regional heads are responsible for all activities of the regions of the world market. It create a sense of accountability for performance to the regional heads. A specific region / area is considered as profit centre. Coordination of functional operations / activities is ensured in the geographic area or region structure.

Demerits

This structure may inhibit coordination and communication between geographical regions/areas. Separate production facilities are created in all regions. It increases production cost and advantages of economies of scale are not achieved in this structure. Establishing all functional areas within each region leads to duplication of resources – men, machine, money, materials and management.

GLOBAL PRODUCT STRUCTURE

Under this structure, each global product division is treated as a profit centre. All functional departments (operations, marketing, finance, accounting, human resource management) are establishment under each product division. In this structure, multinational corporations are organized around specific products with global scope.

Merits

Coordination among department is ensured in this structure. All functions are established within the product division. This structure facilitates to achieve economies of scale and make optimal location decisions to leverage a country's comparative advantage in raw materials and labour.

Demerits

In this structure, resources are allocated to various products. It creates duplication of resources. This structure inhibits coordination across product division.

GLOBAL DIVISIONAL STRUCTURE

The global divisional structure establishes all functional departments (activities) within each division and worldwide responsibility is given to the incharge of a division. This structure is an extension of the global product structure. A division is formed under this structure by grouping several related products together.

Merits

Duplication of resources are reduced by creating common functions for all products within the division. It facilitates coordination across products and customer services and satisfaction.

Demerits

This structure raises costs to achieve the advantage of leveraging global advantages in raw material sourcing, production and marketing.

GLOBAL CUSTOMER STRUCTURE

This structure is based on the types of customers. This type of structure are organized around categories of customers organizational structures are established separately for industrial customers, consumer goods customers, retail customers, and customers of specific products.

Merits

The global customer structure contribute to indepth understanding of specific customer segments. It facilitates product adaptation and customized market in various customer segments.

Demerits

Duplication of resources is possible between the structures established for various customers.

GLOBAL MATRIX STRUCTURE

Anant K. Sundaram and J. Stewart Black has explained global matrix structure as, 'structure consists of two organization structures superimposed on each other'. The matrix structure might consists of product divisions intersecting with functional departments or geographical areas intersecting with global divisions.

Merits

This structure facilitates the flow of information throughout the organization. It ensures balanced orientation between the two organization structure.

Demerits

Conflicts may arise between the two organizational structures formed matrix structure. Conflicts may inhibit the organisation's ability to respond to changing marketing environment quickly. Under this structure many managers

will have to respond two bosses. Dual sources of authority will happen in this structure.

MIXED ORGANISATIONAL STRUCTURES

It is the combination of different forms of organizational structures. This structure is created to gain advantages of one organization structure and reduce its disadvantages by incorporating the features of another structure.

STRATEGIC ADAPTION

The study materials essentially require to explain strategic adaptation are drawn from the book International Marketing – Cateora & Graham, Tata McGraw Hill Publishing Company Ltd., New Delhi.

To appreciate the complexity of standardized versus adapted products, one needs to understand how cultural influences are interwoven with the perceived value and importance a market places on a product. A product is more than a physical item: It is a bundle of satisfactions (or *utilities)* that the buyer receives. These include its form, taste, color, odor, and texture; how it functions in use; the package; the label; the warranty; manufacturer's and retailer's servicing; the confidence or prestige enjoyed by the brand; the manufacturer's reputation; the country of origin; and any other symbolic utility received from the possession or use of the goods. In short, the market relates to more than a product's physical form and primary function. The values and customs within a culture confer much of the importance of these other benefits. In other words, a product is the sum of the physical and psychological satisfactions it provides the user.

A product's physical attributes generally are required to create its primary function. The primary function of an automobile, for example, is to move passengers from point A to point B. This ability requires a motor, transmission, and other physical features to Part 4 Developing Global Marketing Strategies achieve its primary purpose. The physical features or primary function of an automobile is generally in demand in all cultures where there is a desire to move from one point to another other than by foot or animal power. Few changes to the physical attributes of a product are required when moving from one culture to another. However, an automobile has a bundle of psychological features that are as important in providing consumer satisfaction as its physical features. Within a specific culture, other automobile features (color, size, design, brand

name, price) have little to do with its primary function—the movement from point A to B—but do add value to the satisfaction received.

The meaning and value imputed to the psychological attributes of a product can vary among cultures and are perceived as negative or positive. To maximize the bundle of satisfactions received and to create positive product attributes rather than negative ones, adaptation of the nonphysical features of a product may be necessary. Coca-Cola, frequently touted as a global product, found it had to change Diet Coke to Coke Light when it was introduced in Japan. Japanese women do not like to admit to dieting, and further, the idea of diet implies sickness or medicine. So instead of emphasizing weight loss, "figure maintenance" is stressed. Anti-American sentiment is also causing Coke problems with Muslim consumers. Three new competitors popped up recently—Mecca Cola, Muslim Up, and Arab Cola. McDonald's is also responding to such problems with their new McArabia sandwich.

Adaptation may require changes of any one or all of the psychological aspects of a product. A close study of the meaning of a product shows to what extent the culture determines an individual's perception of what a product is and what satisfaction that product provides.

The adoption of some products by consumers can be affected as much by how the product concept conforms with norms, values, and behavior patterns as by its physical or mechanical attributes. For example, only recently did Japanese consumers take an interest in dishwashers—they simply didn't have room in the kitchen. However, very compact designs by Mitsubishi, Toto (a Japanese toilet company), and others are making new inroads into Japanese kitchens. A novelty always comes up against a closely integrated cultural pattern, and it is primarily this that determines whether, when, how, and in what form it gets adopted. Some financial services are difficult to introduce into Muslim countries because the pious have claimed they promoted usury and gambling, both explicitly forbidden in the Koran. The Japanese have always found all body jewelry repugnant. The Scots decidedly resist pork and all its associated products, apparently from long ago when such taboos were founded on fundamentalist interpretations of the Bible. Filter cigarettes have failed in at least one Asian country because a very low life expectancy hardly places many people in the age bracket most prone to fears of lung cancer—even supposing that they shared Western attitudes about death.

When analyzing a product for a second market, the extent of adaptation required depends on cultural differences in product use and perception between the market the product was originally developed for and the new market. The greater these cultural differences between the two markets, the greater the extent of adaptation that may be necessary.

The problems of adapting a product to sell abroad are similar to those associated with the introduction of a new product at home. Products are not measured solely by their physical specifications. The nature of the new product is in what it does to and for the customer—to habits, tastes, and patterns of life.

When product acceptance requires changes in patterns of life, habits, or tastes, the understanding of new ideas, the acceptance of the difficult to believe, or the acquisition of completely new tastes or habits, special emphasis must be used to overcome natural resistance to change.

An important first step in adapting a product to a foreign market is to determine the degree of newness as perceived by the intended market. How people react to newness and how new a product is to a market must be understood. In evaluating the newness of a product, the international marketer must be aware that many products successful in the United States, having reached the maturity or even decline stage in their life cycles, may be perceived as new in another country or culture and thus must be treated as innovations. From a sociological viewpoint, any idea perceived as new by a group of people is an innovation.

Marketing strategies can guide and control to a considerable extent the rate and extent of new product diffusion because successful new product diffusion depends on the ability to communicate relevant product information and new product attributes.

The goal of a foreign marketer is to gain product acceptance by the largest number of consumers in the market in the shortest span of time.

Adaptation is a key concept in international marketing, and willingness to adapt is a crucial attitude. Adaptation, or at least accommodation, is required on small matters as well as large ones. In fact, the small, seemingly insignificant situations are often the most crucial. More than tolerance of an alien culture is required. There is a need for affirmative acceptance, that is, open tolerance of the concept "different but equal." Through such affirmative acceptance, adaptation

becomes easier because empathy for another's point of view naturally leads to ideas for meeting cultural differences.

As a guide to adaptation, there are ten basic criteria that all who wish to deal with individuals, firms, or authorities in foreign countries should be able to meet: (1) open tolerance, (2) flexibility, (3) humility, (4) justice/fairness, (5) ability to adjust to varying tempos, (6) curiosity/interest, (7) knowledge of the country, (8) liking for others, (9) ability: to command respect, and (10) ability to integrate oneself into the environment. In short, add the quality of adaptability to the qualities of a good executive for a composite of the successful international marketer.

Adaptation does not require business executives to forsake their ways and change to local customs; rather, executives must be aware of local customs and be willing to accommodate to those differences that can cause misunderstandings. Essential to effective adaptation is awareness of one's own culture and the recognition that differences in others can cause anxiety, frustration, and misunderstanding of the host's intentions.

To adjust and adapt a marketing program to foreign markets, marketers must be able to effectively interpret the influence and impact of each of the uncontrollable environmental elements on the marketing plan for each foreign market which they hope to do business.

The task of cultural adjustment, however,-is the amst challenging and important one confronting international marketers; they must adjust their marketing efforts to cultures to which they are not attuned. In dealing with unfamiliar markets, marketers must be aware of the frames of reference they are using in making their decisions or evaluating the potential of a market, because judgments are derived from experience that is the result of acculturation in the home country. After a frame of reference is established, it becomes an important factor in determining or modifying a marketer's reaction to situations - social and even monsocial.

Cultural conditioning is like an iceberg—we are not aware of nine-tenths of it. In any study of the market systems of different peoples, their political and economic structures, religions, and other elements of culture, foreign marketers must constantly guard against measuring and assessing the markets against the fixed values and assumptions of their own cultures. They must take specific

steps to make themselves aware of the home- cultural reference in their analyses and decision making.

The key to successful international marketing is adaptation to the environmental differences from one market to another. Adaptation is a conscious effort on the part of the international marketer to anticipate the influences of both the foreign and domestic uncontrollable factors on a marketing mix and then to adjust the marketing mix to minimize the effects.

BUSINESS ETHICS

Business ethics is concerned with truth and justice and has a variety of aspects such as expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy and corporate behaviour in the home country as well as abroad.

Ethics deals with what is good and bad and with moral duty and obligation.

Managerial ethics in the international environment focuses on moral judgments about the "tightness" and "wrongness" of actions. As with social responsibility, there are a variety of schools of thought, but two general approaches provide the foundation for more specific refinements. An understanding of these basic frameworks can help managers examine their personal ethics, as well as help them understand and work more effectively with others who have different ethical perspectives.

Teleological systems of ethical behavior hold that the lightness or wrongness of behavior can be judged by the consequences of those actions. Essentially the good or bad that results from an action for human well-being determines whether the act was right or wrong. Perhaps the most widely known specific teleological system is utilitarianism.

Utilitarianism is often described as "the greatest good for the greatest number." However, this is not an accurate description. More accurately, utilitarianism as an ethical system evaluates actions in terms of the consequences that result "in the greatest good." This is an important distinction, because one alternative could produce the greatest good while a different alternative could produce some good for the greatest number. Within the utilitarian perspective

the ethical choice would be to choose the alternative that results in the greatest good compared to the good produced by all other possible choices. The good consequences of an action are determined by the aggregate preferences of those affected by the action'.

Deontological systems of ethical behavior hold that the lightness or wrongness of behavior can be judged by consequences, .but also independent of consequences. From a deontological perspective, one can deduce principles that have moral standing. If the actor's intentions are consistent with the principles of moral standing, then motives—in addition to consequences—must be considered in determining if an action is right or wrong.

Perhaps the best-known deontological system is that developed by Immanuel Kant, who argued for a system based on moral imperatives. His basic imperative was "Act according to the maxim that you would will to be a universal rule." This basic notion has two critical parts. The first addresses universalism: Whatever rule or moral imperative you put forward should apply to all under all situations. The second addresses reversibility: Whatever rule or moral imperative you put forward should be one that you would apply to yourself.

Harold Koontz and Heinz Weihrich in their book 'Essentials of management' have suggested three moral theories related to business ethics. The utilitarian theory suggests that plans and actions should be evaluated by their consequences. The purpose is that plans or actions should produce the greatest good for the greatest number of people. The theory based on rights holds that all people have basic rights. The theory of justice demands that decision makers be guided by fairness and equity as well as impartiality.

Companies in order to have the success they desire must not only be able to sell a product or service, they need to be seen to adhere to high standards, both in the service offered and ethically.

Problem of corporate ethics has three aspects. They are i) development of the executive as a moral person, ii) the influence of the corporation as a moral environment and iii) the actions needed to map a high road to economic and ethical performance – and to mount gruardrails to keep corporate wayforers on track.

In consumer market, consumers are not technical professionals. They do not have the skills to fully assess the products they are offered except in a general way of judging the fitness of that product for the purpose for which it was purchased. It is the moral obligation of the corporate enterprises to product right product to the right consumers at right place and price. If this moral obligation is ensured by a company that company is known as ethical oriented company. The MNCs should obey all legal framework of the country were they do business. The business of MNCs should not be harmful to consumers and country where they do business. Similarly it should not be farmful to the culture of the people. Business ethics does not advocate misleading advertisement. Consumers satisfaction and consumers welfare are the basic contributions of business ethical oriented companies. Corrupt – free business practices is an example of business ethics.

MARKETING ETHICS IN EMERGING MARKETS – COPING WITH ETHICAL DILEMMAS

(It is drawn from the article published in IIMB, Management Review, March 2006)

Multinational companies (MNCs) are increasingly discovering new potential markets outside the Western hemisphere. Economies like India, China or Brazil are considered die new growing markets and are designated to generate additional profits in the long run, which are difficult to achieve in saturated Western markets. Comparable to the changes in Europe after the Second World War, these emerging markets have transformed into buying markets and are no longer cheap production sites for MNCs. Today, India and China account for almost one third of the world's population. Despite the fact that their buying power is still low compared to the West - according to the World Bank approximately 390 million Indians live on less than one dollar a day - they are very attractive future markets for global companies. Therefore, MNCs are busy exploring mis untapped potential by implementing specific marketing strategies fulfilling the profit claims of their shareholders.

However, there is considerable public opinion which holds the activities of MNCs in emerging markets to be immoral economic colonialism. For example, the aggressive commercialisation of 'Nestle Pure Life' water in Pakistan was interpreted as directed against the common welfare and the real needs of the local people. Similar to the 'Nestle Baby Food case'. Nestle

aggressively marketed their water 'Pure Life' by organising seminars on water quality (wherein they did not officially appear as the organiser) shortly before launching the new product. The hired marketing organisation convinced local politicians that the available state-controlled water was causing health problems. It was not the selling of water, or milk powder or cigarettes as in previous cases, which was considered ***morally*** questionable but the aggressive commercialisation and the misleading of potential customers through communication that neither reflected the framing conditions nor considered the actual knowledge standard of the consumer. Such attitudes have led to worldwide criticism and a public call for a stronger sense of responsibility among MNCs. Shue sees this kind of attitude as having 'a great deal to do with the discounting of the welfare of people across ***national boundaries***, especially when the boundaries also mark cultural, ethnic, or radical differences. Harm to foreigners is simply not taken as seriously'.

From an ethical point of view, several decisive areas of conflict when entering new markets can be identified. The growth activities of global companies or the principles of profit maximisation seem to be competing with the common welfare or the maximisation of welfare. Further, there is the question of whether new needs should be actively created before existing needs are satisfied. How should needs be prioritised and who should define them? In striving for a clear win-win situation with regard to sustainable development, from the local perspective, a *need-oriented market activities should be* the main goal. However, companies can only persist in the market if they are economically successful. From a company's perspective a *market-oriented satisfaction of needs vs* essential. Thus, we encounter a classical dilemma between economic and social goals, wherein ethical points of view play a key role.

The Notion of Marketing Ethics

According to Meffert, marketing is the planning, coordination, and control of all corporate activities concentrated or actual and up coming market". Corporate goals should be achieved through a continuous satisfaction of customer needs. Kotler, in contrast, defines marketing as a process in the economic and social structure within which individuals and groups satisfy their needs and wishes by producing, offering, and exchanging products or services.

Whereas Meffert explicitly concentrates on the satisfaction of customer needs, Kotler puts emphasis on the exchange relationships. To summarise, marketing can be conceived as market-oriented corporate management wherein the customer and his reeds play a crucial role.

Intersection of Marketing and Ethics

Marketing is the gateway between the corporate environment or the different target audiences and the company itself. It is this position and the implicit characteristics of marketing activities that give rise to ethical concerns and criticism and since the 1960s, ethical concerns have been increasingly connected to the marketing practices of particular companies. According to Tsalikis and Fritzsche marketing is 'the functional area most closely related ***to ethical abuse***'.

In general, fundamental social problems such, as the negative influence upon culturally affected values, the advancement of conformity instead of individuality and the discrimination against classes or castes, cultural imperialism or the tendency towards a global dominance of Western culture, and ecological problems caused by production, distribution and consumption take centre stage when the ***ethical aspects*** of marketing practices are discussed. In the field of marketing, the focus of the critics is mainly on problematic fields such as price fixing and price differentiation, bribery/ unfair selling methods, extensive information databases about single customers, deceptive advertising, and unsafe products

The marketing legitimisation crisis is based on the fact that it does not just deal with the satisfaction of existing needs, but also with the creation and formation of new needs in the interest of the company. We are therefore confronted with a dilemma between satisfaction of needs and creation of needs. To overcome this dilemma at least to a certain extent, ethical considerations have to become an integral part of marketing, and therefore alternative marketing becomes indispensable. This claim is targetted at companies who strive for a successful and sustainable business model. However, sustainable success requires that companies emphasise the welfare and protection of consumers by orienting their activities along their real needs. Additionally, marketing practices that simultaneously support the political goals of the host country such as poverty reduction or the establishment of infrastructure can further support the legitimisation process because they may activate or support

virtuous development circles or economic globalisation processes that have beneficial, not malignant, effects on social agendas.

Development of Marketing Ethics as a Discipline

The new ways of seeing have led to the development of a new research field, especially in the Anglo-American context, that mainly focuses on the definition and empirical analysis of the sources of ethical marketing dilemmas. Marketing ethics deals with the development of moral values (the desirable) and norms (the requirements) for responsible marketing practices. Parallel to the establishment of marketing ethics as a discipline, a further development of the marketing concept, amounting to a paradigm shift, has taken place. Under the notion *Soda/Marketing,* the market orientation has been broadened into the field of non-profit organisations and, in response to the criticism targetted at the classical marketing conception, its goals have been enlarged through approaches such as *Eco-marketingof: Societal Marketing.* The common goal of these approaches it to overcome the solely economic perspective and to enable a marketing that is aligned with social goals as well. According to Kotler and Zaitmann, the idea of these approaches is 'the design, implementation, and control of programs calculated to influence the acceptability of social ideas and involving considerations of product planning, pricing, communication and marketing research'.

Marketing ethics does not claim to become a new marketing management theory, but aims to improve the current marketing conception through the integration of socio-ecological thought. From an overall business ethics perspective, this development can be considered a conciliation or a teaming-up of economical rationality with ethical reasoning. Marketing ethics is an integral part of business ethics that requests an ongoing dialogue on the possible consequences of marketingpractices in general, as well as the development and constitution of imperatives or action guidelines for future marketing activities.

At present/the discussions in relation to developing countries have mainly been viewed from an overall business ***ethics*** perspective. Multinational companies and sometimes even states are criticised for behaviour that only values the principle of profit maximisation; for taking advantage of the fact that there exists a massive need for paid employment in developing countries where growth does not automatically translate into new jobs; and that the legal protection against poor working conditions is often still inadequate. For instance,

it is only after much criticism that the Indian and French governments have prohibited the deconstruction of the possibly contaminated French aircraft carrier 'Clemenceau' in India. Public discussion and growing public criticism of many such cases has led to improvements, especially in working conditions and the use of natural resources

From Manufacturing Bases to Buying Markets

With the market' starting to turn into the dominant model even in emerging markets — a development however that is much discussed in the ongoing globalisation debate — the importance of marketing ethics for future action becomes clear. As Prahalad and Hart note, MNCs have gained access to more than a billion new customers within the last decade. Formerly closed markets such as Eastern Europe, China, India, and Brazil have become an active part of the global economy. As a consequence, these markets are increasingly turning into buying markets. Through their attendance, the new market participants .not-.only radically alter the demographic configuration but also the existing need context.

The diffusion of marketing, taking the local circumstances into consideration, can lead to fair competitive conditions and better goods supply, and also to social development in the area of education, hygiene, nutrition, and medical supply. Social development and corporate ***success*** can go hand in hand as long as corporate investments do not negatively affect the common welfare of the consumers.

Based on McCarty's 4P-model (product, place, price, and promotion) wherein almost all marketing activities and decisions can be located, current ethical dilemmas can be discussed with regard to the individual strategic dimensions of the international marketing situation.

Product

Products and services can, as long as they are oriented along social and economic performance factors, guarantee better need satisfaction in developing countries. Product variation, product innovation, and product elimination hold a key function in covering the fundamental needs. Unfortunately, MNCs still do not have a strong orientation along these basic needs of the people when defining their product ranges. In general, they uncritically transfer life style and consumption patterns derived from Western countries onto their new customers

to exploit emerging economies of scale and to achieve additional profits through an artificial extension of product life cycles. In the case of such product introductions, two types of ethical problems regarding international marketing can be identified: products that are not appropriate in developing countries and products that are forbidden in Western markets. Emerging markets often serve as disposal sites for previous generation, or even dangerous, products. An example of this is the commercialisation and the distribution of Depo-Provera. in Malaysia, when the drug was not licensed in the United States due to its side effects and the suspicion that it caused cancer.

Some MNCs exploit the knowledge .standard of the consumers and the absence of environment protection in developing countries, as well as the lack of oversight of product safety and product quality. As a representative example, the return of the Coca-Cola Company to India in 1993 can be mentioned. The processes used in manufacturing soft drinks have been inherently damaging because the disproportionately high extraction ofgroundwater deprives poor people of their fundamental right of access to clean water. Additionally, their products have negligible nutritional value compared with traditional drinks and they are often damaging to health. According to Chonko product safety is, together with misleading information on packaging or product, counterfeit products, socially question able products, ecologically incompatible products and intentional product aging, the most common area of ethical concern regarding the development of products and marketing in general. Such practices do not reflect Western standards of customer care at any point, because corporations are not field responsible for the ecological, economic, and social consequences of their actions. From an ethical perspective, corporations must therefore be held responsible for the intended and the unintended consequences of their actions. Within this process, governments can play a crucial role by enacting laws and regulations that are clearly targetted towards misconduct. Customers also can play an important role as their concerted action can lead to boycotts and sanctions.

Place

Studies and surveys dealing with market entry in developing countries show that the integration of the local context decisively contributes to the satisfaction of needs and is a further step to business success in these countries. An oft cited example is Hindustan Lever Ltd. (HLL), with their successful

distribution of the washing powder 'Wheel', that was clearly designed for the needs of the lower economic classes and the conditions of the Indian market. Despite its economic success, the usage of washing powder among the lower economic classes might also have negative effects, especially from an ecological perspective. However, as products and services simultaneously have positive and negative effects, it is difficult to decide whether or not a product should be launched. For example, empowering of women through education, family planning, and microcredit loans may be a desirable outcome, but it is also culturally disruptive. Why should a rural family not be allowed to use washing powder? And who is in a position to decide? As these questions cannot be detached from the specific context, it can only be stated that such topics must become an integral part of the public discourse. At the same time, MNCs should yield towards 'product stewardship' by considering the impact of products throughout their entire lifecycle.

Price

Based on the international price policy, companies define the market price of their products and services. Price definition uses three basic methods: cost-oriented, demand-oriented, and competition-oriented methods. The factors that affect price determination differ from one country to the other and must therefore be revised on an individual basis.

The price structuring or the fair determination of prices is one of the most controversial points of international marketing strategies pursued by MNCs. The central question of international price policy is: At what point is a price fair for the buyer as well as for the seller? In emerging markets these kinds of questions are very difficult to answer. As of now, MNCs mainly serve the upper classes wherein the price plays a subordinated role. This so-called 'skimming strategy' implies that the middle and lower classes are obviously excluded from market development. In other words, the needs of the broad public are not being considered, and the market entry strategies do not support the overall development of these countries. If one is eager to serve the lower group of buyers - and therefore the majority of the people in emerging markets - prices must be radically adjusted to their income situation. However, these customisations are often not carried out. A sad example is the selling of AIDS drugs in emerging markets. Western pharmaceutical companies are not willing to sell the drugs at a net cost price or to develop innovative distribution channels

that aim to improve the situation of billions ofAIDS-infected people. While successfully protecting the intellectual property of their pharmaceuticals, these companies have prevented the production of cheaper generic drugs for emerging markets. Thus price policies can create strong interdependencies which can be exploited in favour of the profit maximisation principle. However, operating solely on this principle is not compatible with social responsibility and integrity at any point. According to Vachani and Smith'[19] this situation 'points to a need for coordinated action by governments, multilateral institutions, andNGOs - as well as by firms themselves - to help create the conditions in which prices can be lowered to a "socially responsible" point at which the poor can be better served'.

Promotion

The superior goal of a corporation's communication policy is to steer the behaviour of actual as well as potential customers. It therefore comprises the conscious design of all information through advertising, sales promotion, personal selling, public relations and special instruments such as exhibitions and fairs that are directed towards the national and international sales markets.

Through its role as connector to the public, the communication policy is often the first to be criticised from an ethical point of view. This is clearly being reflected through the plurality of scientific studies and discourses concentrating on ethical advertising principles and the misleading of consumers through false statements, as well as through the increasing number of legal restrictions in the field of advertising and communication. In this context, MNCs often refer to the power of customers' judgement. However, the power of judgement develops through increasing market participation and is still evolving in emerging markets. Especially with regard to the impact of mass communication, it is necessary that companies consider the knowledge situation of the consumers as well as their cultural background when planning and defining the content of their communication measures. From an ethical perspective, advertising especially should strive for local adaptation in order to maintain national norms and cultural identity. The main aim should be to preserve a national identity rather than promote an international one. The awareness and acceptance of cultural identities can minimise the cultural footprints and ease the creation of more informed customers, as the activities are based on common knowledge.

Another fundamental problem concerning the communication policy deals with the artificial creation of needs, particularly in a market where a large section of the population can satisfy its basic needs only with difficulty. The creation of such additional needs may aggravate the situation because important financial resources maybe diverted for their consumption (e.g. the consumption of cigarettes). Such dysfunctional behaviour maybe based on the encouragement of consumption standards that rise more quickly than incomes.

Designing products along customer needs: 'Inclusive capitalism' and ethical marketing in developing markets means designing products that are specifically suited to the need of low-income consumers, whom Prahalad and Hart see as containing the real market potential, people who are getting access to the market for the first time. The rethinking of customers and the satisfaction of their needs stands at the centre of the discussion. In the long-run, their quality of life can be improved through culturally sensitive, ecologically sustainable, and economically profitable products and services, which however require 'radical innovations in technology and business models'. The fact that a reliable infrastructure is still being set up in emerging markets, such as India or China, offers an opportunity for the development and marketing of innovative products under the application of new and disruptive technologies.

The anti-globalisation movement therefore emphasises that marketing undermines local culture, places intellectual property ahead of human rights, and contributes to unsustainable and unhealthy consumption patterns. In order to make an essential contribution to development, MNCs and their managers thus have to show sensitivity regarding the social consequences of marketing strategies and practices, which includes the nature of the product or the service to be marketed, as well as the possible external effects of selling. The establishment of a welfare maximisation perspective is therefore essential when supplying goods to the lower end of the pyramid. Besides affordable pricing and the introduction of efficient distribution channels, w,2ll-conceived information campaign; and the creation of more informed consumers is important to foster further growth in developing countries.

Incorporating social responsibility: MNCs should align their corporate goals to accommodate the development of overall political goals in developing markets and assume social responsibility, as their conduct has social, economic, and environmental consequences for local consumers.

CODES AND GUIDELINES OF ETHICS

Corporate codes of ethics help define and identify acceptable behaviour by formulating the basic moral values. Internally, they should help employees evaluate and eventually revise their decisions. Externally, they are often used as a public relations tool that should support the creation of a benevolent image. The successful implementation of codes of ethics requires a continuous and company-wide communication of the content/ including specific wording and relevance within the corporate context.

Several companies have practical guidelines to operationalise their ethical principles and codes, to specifically support marketing specialists when making decisions with possible ethical implications/ foster communication between individuals and uncover inconsistencies within ethical ideals.

Top management leadership: As Thompson assessed, codes and rules do not guarantee adherence. To anchor the basic ethical understanding within an organisation it is imperative that the top management represent the topic in a serious and credible manner. As Chonko observes, 'Ethical guidelines and ethics codes are not likely to be observed unless top management declares that supporters will be rewarded and violators will be punished'. The top management, as well as marketers, must adopt and incorporate the role of 'moral champions.

Ethics Seminars and Programmes

Internal education programmes and seminars are a popular measure to sensitise employees to ethical considerations. The goal of such educational modules is normally not the display of definite answers. Instead, case study methods are chosen to discuss possible problem areas.

Ethical Audit

Companies have seen that unless they monitor their ethical performance it will be taken for granted and hence many have developed systematic procedures to determine whether their employees are taking the commitment to ethical and social responsibility seriously.

SOCIAL RESPONSIBILITIES OF A BUSINESS

David Hunger and Thomas L. Wheelen have expressed that the concept of social responsibilities to society that extend beyond making a profit.

Milton Friedman's Traditional View on Business Responsibilities

If a businessperson acts "responsibly" by cutting the price of the firm's product to prevent inflation, by making expenditures to reduce pollution, or by hiring the hard-core unemployed, that person, according to Friedman, is spending the stockholders' money for a general social interest. Even if the businessperson has stockholder permission or encouragement to do so, he or she is still acting from motives other than economic and may, in the long run, cause harm to the very society the firm is trying to help. By taking on the burden of these social costs, the business becomes less efficient: either prices go up to pay for the increased costs or investment in new activities and research is postponed. These results negatively, perhaps fatally, affect the long-term efficiency of a business. Friedman thus referred to the social responsibility of business as a "fundamentally subversive doctrine" and stated that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

Archie Carroll has proposed fair responsibilities to a business. They are

i) Economic
ii) Legal
iii) Ethical and
iv) Discretionary

} Social responsibilities.

A business firm must first make a profit to satisfy its economic responsibilities. To continue in existence, it must follow the laws, they fulfilling its legal responsibilities. Once the two basic responsibilities are satisfied, the firm should look to fulfilling its social responsibilities. Therefore, social responsibility includes both ethical and discretionary, business economic and legal responsibilities. A firm can fulfill its ethical responsibilities by doing these things that society tends to value but has not yet put into law. Once ethical

responsibilities are satisfied, a firm can focus on discretionary responsibilities, purely voluntary actions that society has not yet decided are necessary.

H.S. Singhania classifies the nature of the social responsibility of business into two categories:

- The manner in which a business carries out its own business activity; and
- The welfare activity that it takes upon itself as an additional function.

Professor Francis Cherunilam in his book, 'Strategic Management' has explained the social responsibilities of business. They are given below:

Some of the specific responsibilities of business may be outlined as under:

a) ***The Enterprise and the Shareholders:*** In the first place, corporate business must provide a fair return on capital to shareholders and must provide their regular, accurate and full information about the working of the enterprise. The shareholders should also meet their obligations by evincing keen interest in company affairs.

   To safeguard the capital of the shareholders and to provide a reasonable dividend, the company has to strengthen and consolidate its position. Hence, it should develop and improve its business and build up its financial independence.

   The shareholders are interested not only in the protection of their investment and the return on it but also in the image of the company. It shall, therefore, be the endeavour of the company to ensure that its public image is such that the shareholders can feel proud of their company.

b) ***The Enterprise and the Workers:*** It is the responsibility of the management to provide opportunities to the workers for meaningful work. Also, the management of a business should try to win the co-operation of the workers by creating the right conditions in the enterprise. The business enterprise owes it to the workers to provide recognition to the workers' unions, accept the workers' right to associate and assure a fair wage and a fair deal to the work force. The workers need to be helped to develop their own leadership in unions through education. Social security, profit-sharing, fair promotions, proper grievance settlement and employee welfare are some of the other well-recognised responsibilities of business firms to their employees.

The responsibility of the organisation to the workers include:

- The payment of fair wages7
- The provision of the best possible working conditions;
- The establishment of fair work standards and norms;
- The provision of labour welfare facilities to the extent possible and desirable;
- Arrangements for proper training and education of the workers;
- Reasonable chances and proper system for accomplishment and promotion;
- Proper recognition, appreciation and encouragement of special skills and capabilities of the workers;
- The installation of an efficient grievance handling system;
- An opportunity for participating in manageria! decisions to the extent desirable.

c) ***The Enterprise and the Consumers:*** A business enterprise has the responsibility of providing the goods and services needed by the community at the most reasonable possible prices. It must guard against adulteration, poor quality, lack of service and courtesy to the customers, misleading and dishonest advertising, etc The consumers also need protection against monopoly and restrictive trade practices. Such protection can be provided best if business learns to play its part of the game with fairness and liberalism.

Important responsibilities of the business to the customers are:

1) To improve the efficiency of the functioning of the business so as to
   - increase productivity and reduce prices, (b) improve quality, and
   - smoothen the distribution system to make goods easily available.

2) To do research and development, to improve quality and introduce better and new products.

    - To take appropriate steps 'to remove the imperfections in the distribution system, including black-marketing or profiteering by middlemen or anti-social elements.
    - To supply goods at reasonable prices even when there is a seller's market.
    - To provide the required after-sales services.
    - To ensure that the product supplied has no adverse effect on the consumer.
    - To provide sufficient information about the products, including their adverse effects, risks, and care to be taken while using the products.
    - To avoid misleading the customers by improper advertisements or otherwise.
    - To provide an opportunity for being heard and to redress genuine grievances.
    - To understand customer needs and to take necessary measures to satisfy their needs.

d) The Enterprise and the Community. An enterprise must respect (he law and pay taxes regularly and honestly. It must behave as a good citizen and take care to avoid bad effluent, smoky chimneys, ugly buildings, and to devote attention to housing and workers living conditions. It has the responsibility of maintaining proper relations with the community through the press and its meetings.

A business has a lot of responsibility to the community around its location and to the society at large. These responsibilities include :

- Taking appropriate steps to prevent environmental pollution and to preserve the ecological balance.
- Rehabilitating the population displaced by the operation of the business, if any..

- Assisting in the overall development of the locality.
- Taking steps to conserve scarce resources and developing alternatives, wherever possible.
- Improving the efficiency of the business operation.
- Contributing to research and development.
- Development of backward areas.
- Promotion of ancillarisation and small-scale industries.
- Making possible contribution to furthering social causes like the promotion of education and population control.
- Contributing to the national effort to build up a better society)

It is not enough for a business firm to be conscious of the need for the discharging of its responsibilities towards different segments of the community. The management of a business firm has to make conscious efforts towards the establishment of proper relations with each of these segments. This function of establishing proper relations with all those agencies and persons with whom the business firm has to deal goes by the name of public relations function". Basically, the public relations function of management is concerned with the establishment of sound and mutually fruitful relations with the different 'publics', which contribute towards the growth and prosperity of the business firm. These 'publics' include the owners of proprietary concerns, the shareholders of a company or the members of a co-operative society, the employees, consumers, the government, banking and other financial institutions, the other firms in the business arid the community at large. In performing the public relations function the management of a firm has to develop and maintain proper liaison with each of these, so as to earn their goodwill and patronage and secure their help and co-operation in making the firm more effective in realising its objectives.

Corporate Image. Every organisation builds up in course of time a certain image of its own in the minds of the community at large. The community and its various organs evaluate a firm's utility and importance in the light of such an image. If it is a good image, it definitely helps the company not merely in selling its products or services but also paves the way

for the establishment of proper relations with the government, the financiers, the suppliers, the workers, etc To some extent the image of the organisation will depend upon the extent to which the management takes steps to give proper, publicity to the activities of the firm and its contribution towards the welfare of the community or national development, etc. But it must be remembered that mere publicity cannot do thy trick. Public relations is 90% good work and 10% image building. The image of any object basically depends on two things: (a) the object itself, and (A) *he mirror. The advertising, publicity and other promotional measures as also attempt to communicate to the community the viewpoint of a firm, mirror the firm and its operations, but if the firm is basically not sound or is not making any worthwhile contribution toward its publics, it will be difficult to sustain the image for long. On the other hand, if a business firm is doing well in relation to | all the publics, but is not-communicating with them, its achievements may not get highlighted and its usefulness may not be fully appreciated. Therefore, it is important for the management to pay proper attention to the development of a favourable image for the corporate entity, in the mind of the community at large and the various publics. (Source: Fundamentals of Business Organisation and Management – Y.K.Bhusan, Sultan Chand & Co., New Delhi).

The moral question of what is right or appropriate poses many dilemmas for domestic marketers. Even within a country, ethical standards are frequently not defined or always clear. The problem of business ethics is infinitely more complex in the international marketplace because value judgments differ widely among culturally diverse groups. That which is commonly accepted as right in one country may be completely unacceptable in another. Giving business gifts of high value, for example, is generally condemned in the United States, but in many countries of the world gifts are not only accepted but also expected.

To behave in an ethically and socially responsible way should be the hallmark of every businessperson's behavior, domestic or international. It requires little thought for most of us to know the socially responsible or ethically correct response to questions about breaking the law, harming the environment, denying someone his or her rights, taking unfair advantage, or behaving in a manner that would bring bodily harm or damage. Unfortunately, the difficult issues are not the obvious and simple right-or-wrong ones. In many countries the international marketer faces the dilemma of responding to sundry situations where there is no local law, where local practices condone a certain behavior, or

where the company willing to "do what is necessary" is favored over the company that refuses to engage in practices that are not ethical. In short, being socially responsible and ethically correct are not simple tasks for the international marketer operating in countries whose cultural and sociaj values or economic needs are different from those of the marketer.

In normal business operations there are five broad areas where difficulties arise in making decisions, establishing policies, and engaging in business operations: (1) employment practices and policies, (2) consumer protection, (3) environmental protection, (4) political payments and involvement in political affairs of the country, and (5) basic human rights and fundamental freedoms. In many countries, laws may help define the borders of minimal ethical or social responsibility, but the law is only the floor above which one's social and personal morality is tested. The statement that "there is no controlling legal authority" may mean that the behavior is not illegal but it does not mean that the behavior is morally correct or ethical. Ethical business conduct should normally exist at a level well above the minimum required by law or me "controlling legal authority." In fact, laws are the markers of past behavior that society has deemed unethical or socially irresponsible.

Perhaps the best guide to good business ethics are the examples set by ethical business leaders. However, three ethical principles also provide a framework to help the marketer distinguish between right and wrong, determine what ought to be done, and properly justify his or her actions. Simply stated they are as follows.

- Utilitarian ethics—Does the action optimize the "common good" or benefits of all constituencies? And who are the pertinent constituencies?
- Rights of the parties—Does the action respect the rights of the individuals involved?
- Justice or fairness—Does the action respect the canons of justice or fairness to all parties involved?

Answers to these questions can help the marketer ascertain the degree to which decisions are beneficial or harmful, right or wrong, or whether the consequences of actions are ethically or socially responsible. Perhaps the best framework to work within is defined by asking: Is it legal? Is it right? Can it withstand disclosure to stockholders, to company officials, and to the public?

SELECTED COMPANIES FULFILLING SOCIAL RESPONSIBILITIES ARE ILLUSTRATED BELOW:

Enriching Life and the Environment

If more organisations go the eco-friendly way by planting trees or checking levels of pollution or researching and manufacturing eco-friendly products, it augurs well for our lives. And in a country where poverty is rife, illiteracy is still a curse and women's empowerment a dream still to be realised, corporate involvement and commitment to assist and uplift the marginalised can only enhance the country's living standards.

Responding to the query about the significance of Corporate Social Responsibility (CSR), Arvind Mathew, Managing Director and President, Ford India said, "Business is increasingly being asked to account for its economic, social and environmental performance. Corporate citizenship is closely integrated with the core business of Ford. A guiding principle is that the conduct of the company worldwide must be pursued in a manner that commands respect for its integrity and for its positive contribution to society. At Ford India and throughout Ford Motor Company, we recognise the importance of operating in a socially responsible manner."

At the SPIC Group of companies, CSR is focused on the marginalized rural population. Dr. AC Muthiah, Chairman, SPIC Group, says, "CSR at the SPIC Group is largely directed at the rural poor in Tamil Nadu. As an agro-input company, the CSR vision of the company has clearly identified this segment of the society that needs help and succour in a sustained manner. CSR has always been used as an instrument in developing the rural community."

R Chandrasekaran, Managing Director, Cognizant Technologies, says, "Cognizant has always believed that its leadership role in the IT services sector comes with a certain responsibility. The most successful organisations are the ones that give back to the community and Cognizant has been no different as it has set high standards in being socially responsible."

Charitable work and concern for the environment play an important role in the Sanmar Group's activities. But CSR, according to N Sankar, Chairman, Sanmar Group, extends beyond charity - ethical practices, integrity and serving shareholders' profitably are equally important obligations for any organisation and they too fall within the gambit of CSR. He points out, "The Company is

accountable only to its shareholders, for whom it should maximise long-term value at all times following ethically correct practices and earning the goodwill of the stakeholders."

'Work to give' is at the core philosophy at Ashok Leyland, the flagship company of the Hinduja Group. The company is deeply committed to resource conservation and the environment. Talking about the commercial vehicle industry, R Seshayee, Managing Director, explains, "As a resources intensive industry that consumes large quantities of steel, power, water and oil, a reduction in the consumption of these resources would not only help in environmental preservation, but also contribute directly to the balance sheet." He believes that resource conservation has an impact on society and is "expected of a responsible corporate citizen". He says, "Towards this end, Ashok Leyland has been adopting clean and lean manufacturing processes at all manufacturing locations, while also monitoring and guiding suppliers in establishing Environmental Management Systems. It is a point of view echoed by Mathew who says, "Ford in India is committed to improving the Indian economy by introducing high-quality models at a fair value for its customers in the country. The company is also strengthening the export programme from India. Ford will always persevere to protect the environment notably on water consumption, emissions, waste and renewable resources.

Giving Back to the Community

Giving back to society is the underlying principle of IT major Cognizant; To focus its efforts in this direction, the organisation established Cognizant Foundation, which acts as the core of its corporate social responsibility initiatives. R Chandrasekaran, Managing Director, Cognizant says, "The foundation actively contributes to several worthwhile causes through charities, fund-raisers, sponsorships, not-for-profit organisations and industry-academia linkage programmes."

Cognizant • ISRO - Amrita venture

Cognizant Foundation supports ISRO and Amrita Vishwa Vidyapeetham in the latter's attempt to set up Village Resource Centres (VRC), which have reached out to empower five Indian villages across the country.

The VRC initiative provides the rural community with greater access to information, helps in disaster management by spreading information and assists

during epidemics and seasonal diseases. The benefits VRCs deliver to rural India cover a broad spectrum including tele-education, tele-medicine, tele-agriculture, tele-fisheries, and prior information on calamities and disaster management.

The multi-disciplinary university, Amrita Vishwa Vidyapeetham (Amrita), collaborated with ISRO to launch the AMRITA - ISRO) VRC satellite network, a comprehensive satellite-based rural transformation initiative. In the first phase of the project, 12 village resource centres were launched on the satellite network across India. The project is a unique venture in bringing about an academia-government-industry partnership, uniting some of the foremost multi-national technology companies. Cognizant has been one of the key players in this initiative, contributing several lakhs of rupees, and has sponsored the setting up of one VRC with necessary communication infrastructure such as servers, PCs, networking cards, projectors and so on.

Apart from funding the computing and technical aspects of the classroom infrastructure for this initiative, Cognizant has also collaborated with AW in knowledge sharing in distance education, quality training, virtual classrooms, and assessments in making the venture successful.

Cognizant • RamanI Ranfianayaki Trust initiative

Cognizant Foundation provided essential resources to a non-profit village school in south Tamil Nadu. Srividyashram, a nursery and primary school in an Ullikkadai village, Thanjavur District, Tamil Nadu, is a highly subsidised, not-for-profit school managed by selfless and honest volunteers with a proven record of integrity and excellence.

The school lacked basic resources and the Foundation interceded to contribute resources worth several lakhs of rupees to set up a library, mathematics and science labs, equipped the school with computer facility and even provided books and other soft material for the students.

Vocational Support

Cognizant Foundation supports a juvenile home in an effort to provide its inmates vocational support. Juvenile Home, which is the only one of its type in the country, provides help and support to more than 300 delinquent girls. The Rotary Club of Madras East has been pioneering this initiative along with Relief Foundation and the Department of Social Justice since 2003, which involves co-management of disciplines affecting the mental or physical health of the inmates.

Support in Disaster Relief

Cognizant Foundation has during the past year provided assistance to agencies involved in the rehabilitation of disaster-affected people. It ensures that a speedy recovery path is laid out for the victims of disasters like Tsunami and hurricane Katrina.

Industry - Academia Linkage Support

A significant initiative that Cognizant has undertaken on the social front and continues to do on an ongoing basis is to-vvotk closely with the academia in a number of colleges and universities. On the faculty development front, Cognizant has provided advanced developmental programmes for faculty from more than 50 engineering colleges across the country through workshops and orientation programmes on the latest technologies, SEI- CMM Level 5 processes, project management capabilities, and other important trends in the software industry.

CORPORATE COMPASSION

The year 2005 has been a year of disasters, starting with the earthquake that hit Indonesia on December 26 and the tsunami that hit the Indian Ocean, to the more recent earthquake with its epicentre in Pakistan that damaged infrastructure across the Indian subcontinent.

The various disasters proved that the United Nations and the non-governmental organisations alone cannot handle relief activity and that a more business-like approach is "required to tackle the bottlenecks caused by infrastructure breakdown. Organisations such as TNT, a Netherlands-based international mail and logistics company, showed their sense of social responsibility by working with World Food Programme (WFP) to reach food to the affected in Pakistan. Boston Consulting Group, another of WFP's partners, provided consultancy on getting maximum value from its donations and staff.

For companies, the focus is now on aligning business operations with social values, taking into account Stakeholders' interests in the company's business policies and actions. Called Corporate Social Responsibility (CSR), it focuses on the social, environmental and financial success of a company, marrying social development with business success.

There is also an overlap with related concepts such as corporate sustainability, corporate accountability, corporate responsibility, corporate citizenship, corporate stewardship and so on.

The Organisation for Economic Cooperation and Development (OECD) believes that "there-is general agreement that in a global economy, businesses are often playing a greater role beyond job and wealth creation and CSR is business's contribution to sustainable development" and that "corporate behavior must not only ensure returns to shareholders, wages to employees and products and services to consumers, but they must respond to societal and environmental concerns and values." The OECD Guidelines for Multinational Enterprise establish voluntary policies that promote corporate transparency and accountability, specific addressing: disclosure of may information, employment a industrial relations, environmental management bribery, competition, consumer interests, science and technology diffusion, and taxation.

Performance of companies now judged based on non-financial arenas such as human rights, business ethics, environmental policies, corporate contributions, community development, corporate governance, and workplace issues. From local economic development concerns to international human rights policies, companies are being held accountable for their actions their impact, compelling them to be more transparent in disclosing and communicating their policies and practices as these impact employees, communities and the environment.

For companies in the outsourcing business, investing in skills and technology training for local employees in the overseas country and investing in local community development are important.

SOCIAL RESPONSIBILITY IS THE KEY

Developing product technology and manufacturing processes that help in preserving the environment is a key objective of Ashok Leyland's management team. In the company's Corporate Social Responsibility Report 2002-05 R Seshasayee, Managing Director, says, "The commercial vehicle industry plays an indispensable role in every economic activity and developmental process. Ashok Leyland has led with innovations in alternate

hails besides offering fuel-efficient engines that are at once economical and environment friendly."

Emission reduction targets are set on a company-wide basis to reduce air pollution every year. At all its locations, sewage and effluent treatment plants have been set up which provide primary, secondary and tertiary treatment apart from innovative processes for water conservation. Over 1.7 million litres of water are recycled every day for maintaining the greenery and plantations. The treated water is also utilised for secondary applications like toilet flushing, floor washing and cooling water tower uptake.

The company's manufacturing unit at Ennore had installed rainwater-harvesting systems over a. decade ago. Most special occasions, within the company are celebrated with the planting of trees and saplings.

Other environmental initiatives include responsible hazardous waste management, reducing resource consumption, green supply chain management through extending assistance to suppliers to set up environmental management systems, and inter-unit environmental benchmarking where a Green Shield Award has been introduced to promote inter-unit environmental benchmarking.

The company has been conducting AIDs awareness and prevention programmes for convoy drivers employed by the company's transport contractors. At its Namakkal Driver Training Centre, apart from the basic curriculum, health education, yoga and AIDs awareness have been introduced. Over 120,000 drivers have been covered so far.

The company interacts with groups who work with underprivileged children. Ashok Leyland introduced the Fun-Bus for exclusive free use by the kids from orphanages, corporation primary schools and other underprivileged groups.

The company has partnered with various organisations to spread awareness on road safety among the public including 25,000 students of diverse schools and colleges. It is also helping the fishing community in Nagapattinam and Cuddalore Districts.

TRANSLATING INTEGIRTY IN ACTION

Ethical practices and delivering satisfaction to its shareholders form the benchmarks of the Sanmar Group's CSR initiatives. In addition to this, the Group is committed to preserving the environment and encouraging sport.

The Group has invested over Rs.60 crores on safety, health and environment measures.

Its concern for the environment is reflected in several proactive ecology conservation initiatives at all its manufacturing facilities. Its effluent treatment plant scrupulously adheres to statutory requirements.

One of Sanmar's earliest projects was providing clean water supply and street lighting for the Mettur township. The Group supports several schools that offer high-quality education for boys and girls.

Sanmar has played a major role in industry-institution interaction and has dose ties With leading educational and research institutions.

Charity is a significant part of the Group's philosophy. The Group has supported and contributed generously to healthcare institutions like the Cancer Institute, Chennai, Sanakara Nethralaya and the Madhuram Narayan Centre for Exceptional children in Chennai.

Over nearly four decades, the Sanmar Group has sponsored cricket teams in all-India tournaments and provided jobs to cricketers with calibre. Many of its players have represented their states and some even the country. N Sankar, Chairman of the Group, was the President of the Tamil Nadu Cricket Association. Both Sankar and N Kumar, the Vice Chairman, have headed apex tennis bodies at both the national and state levels. The IIT Sanmar cricket ground has been developed and is maintained by the Group.

BUILDING INSTITUTIONS, TRANSFORMING LIVES

Corporate Social Responsibility (CSR) forms the core of Amara Raja's business. The company's core objective is 'To transform our spheres of influence and to improve the quality of life by building institutions that provide better access to better opportunities, goods and services - to more people - all the time.

A CSR programme christened Pragati Patham (Path to Progress) encompasses a variety of initiatives involving social and environmental issues. The range of activities of the programme includes: infrastructure development, village development, education and environmental stewardship.

Under the Grameena Vikasam or Village Development Programmes, the organisation has been committed to the development of roads, providing streetlights, developing roadside plantations, and constructing rainwater storage systems and check dams. Under the Vidhyabhyudayam Programme an upper-primary school was started in 1994 to provide education to the children of employees.

The Rajannna Trust, founded by Galla and his wife Srimati Aruna Kumari Galla, in memory of the late Rajagopala Naidu, channelises the CSR efforts of Amara Raja, which includes building check dams, bore wells and irrigation systems, providing financial assistance to farmers, and free education and assistance to the economically marginalized sections.

The Vinaya Ashramu was Started by Rajagopal Naidu and NG Ranga to impart training in the field of agriculture. The objective was to educate the locals in sericulture. The institute conducts camps to train farmers on new trends in cultivation. Thapovanam, established in 1939, focuses on educating poor children and propagating Sanskrit learning. The Rashtreeya Seva Samiti (PASS) was set up in 1981 to help provide education and healthcare to the economically backward.

Towards the various CSR programmes the Raj anna Trust and Amara Raja Group have invested close to Rs 5 crore. All companies in the group contribute 4-5 percent of the net profits to the Rijanna Trust annually.

The Chairman continues, "We strongly believe that industry should move near people and not vice-versa. 'Wludi is why we have set up two of our companies - Mangal Precision Products Private Ltd and Amara Raja Electronics Private Limited – in villages in the heart of Chittoor. These companies have transformed the environment in these villages, which today boasts of telephone exchanges, banks and better infrastructure. Galla Foods, the Group's foray into fruit pulp and concentrate, is working with farmers to help them reap better and consistent realisations."

The flagship company of the Group, Amara Raja Batteries Limited, has also used CSR as an integral part of its programmes. The Amaron Amaragaon programme is one such example. Amaragaon helps to bring technology and connectivity to communities in remote villages by bridging the digital divide. It has ushered in a positive change for the community and created an enduring bond with farmers across the country.

"Environment is the source of all life and we need to protect it so that our future generations can inherit a safe and habitable planet," declares Galla. "Amara Raja Batteries is ISO 14001 certified. Two-thirds of our facility is covered by a green belt - we would possibly be the only battery factory with mango trees in it the midst of its facilities! We are deeply committed to waste management and have invested significantly towards this. Our campaigns for the secure recycling of lead-acid batteries and increasing awareness among our customers to recycle batteries through authorised dealers, are examples of taking responsibility beyond immediate business environs, to the entire supply chain. We strongly believe business and environment are not inversely related - but are co-terminus. Which also explains the green colour in our logo."

Galla concludes: "I am happy to note that CSR has gone beyond merely financial aid and donations. More and more corporate houses are building institutions to work with communities and recruiting the best talent to manage these institutions. This is really heartening. We believe that in addition to financial assistance, direct involvement and efforts are critical for the success of a CSR programme. Commitment though is critical.

AN ASSORTMENT OF OFFERINGS

The SPIC Group empowering the rural community, be it through healthcare or primary education, is top priority. The Group is also deeply committed to promoting sports, fine arts, music and culture.

Taking healthcare to the villages

The SPIC Foundation has established primary healthcare centres (PHS) in rural Tamil Nadu to cater to poor rural folk who cannot afford to go to the nearest town hospital. The Foundation has tied-up with renowned hospitals like the Arvind Eye Hospitals, Madurai, and brings down many specialists in other streams of medicine to visit the health camps that are conducted regularly in

these towns. The Foundation has also donated expensive diagnostic equipment to the PHS.

Significantly, girls from the villages who have passed their 10^{th} standard, are given field training for appointment as health workers in the same village. The Foundation also prepares and distributes weaning mix to villagers at subsidised rates, takes care of ante-natal and post-natal services, child welfare services like immunisation and prescription of nutritious food. The SPIC Trust runs a full-fledged model health-cum-training centre in suburban Chennai where under the guidance of qualified doctors and multi purpose health workers, preventive care and health care services are made available to nearby villages.

Education for the future

The MA Chidambaram Institute of Community Health was set up by the Foundation in 1976 with technical assistance from the Voluntary Health Services. The MA Chidambaram School of Nursing was established in Chennai in 1992. Students participate in pulse polio progammes, blood donation camps and AIDS awareness programmes.

The charitable trusts from the Group run primary schools in the rural villages for classes up to the 8fh Standard and free books are distributed to all the students.

The Sri Venkateswara College of Engineering run by the Educational Foundation is a Centre of Excellence offering engineering education since 1985. With a corpus of nearly Rs.50.00 lakhs earmarked for scholarships, the college, affiliated to the Anna University, awards scholarship worth Rs.7.00 lakhs every year to deserving students on the basis of economic means, merit, sports and co-curricular activity.

The Foundation has established Vocational Training Centres in Pudukottai and Thoothukudi. These institutes, approved by the Govt. of Tamil Nadu and National Council for Vocational Training, New Delhi, are committed to providing necessary industrial training to the less privileged and under-graduates in the villages.

Nurturing sport

The SPIC Group has always believed that good sportsmen bring glory to the nation. SPIC was a pioneer in having a sports quota even in the 1970's

and 80's. The Sports Foundation established the MAC SPIN Foundation in,1995 to nurture the art of spin bowling. The Foundation selects promising youngsters from across the country and provides them intensive training under the supervision of world-class spin bowlers. Many promising trainees from the Academy have already donnedthe under-19 India cap.

Promoting art

The promoters of the SPIC Group have been advancing the cause of Tamil music, art and culture for over 60 years now. The Tamil Isai Sangam started in 1943 by Raja Sir Annamalai Chettair stands testimony to the affinity the Group has for the propagation of Tamil culture and art. A music collage attached to the Sangam trains and develops musicians be it in vocal or instrumental Carnatic music. A research programme on the finer aspects of the Tamil music is an on-going effort at the Sangam. (Source: The Economic Times, 27th December 2005).

Questions

1) What are the various types of organizational structures of MNCs?
2) What is strategic adaptation?
3) Explain the social responsibilities of business.
4) Explain 'Business Ethics'.

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MODEL QUESTION PAPER

Paper 3.5: MANAGEMENT STRATEGIES OF MNCs

Time: 3 hrs Maximum Marks: 100

PART – A (5 x 8 = 40marks)

Answer any **Five** questions

1. What do you understand by strategic management of MNCs?
2. Explain the reasons for the emergence and growth of MNCs.
3. What are the benefits from MNCs?
4. What is corporate strategy?
5. What is merger? What are its merits and demerits?
6. What is environmental scanning? Explain the factors involved in it?
7. Explain 'Functional Strategy'.
8. What is strategic adaptation?

PART – B (4 x 15 = 60marks)

Answer any **Four** questions

9. Discuss the process of internationalization.
10. What is SWOT analysis? Apply SWOT analysis to any one of the MNCs doing business in India.
11. Explain the problems and prospects of international strategic alliances.
12. Explain strategic planning process
13. What is core competence? Explain its importance in international business.
14. What are the various types of organizational structures of MNCs?
15. Explain the social responsibilities of business.

* * *

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